

The Incorporated Accountants' Journal

The Official Organ of The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL is published monthly, on the first day of each month, at an Annual Subscription of 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 3d., postage extra.

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and

Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLIX

SEPTEMBER, 1938

No. 12

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Professional Notes.

On the first day of October our subscribers will find on their desks a journal changed in name, layout and general appearance. Under the new name *Accountancy*, considerably more attention will be devoted to leading articles on accounting and allied topics; the space given up to taxation—that very important branch of the professional accountant's work—will be augmented; the legal notes will be amplified. Some other of the new features of the revised journal will consist of City notes, a Students' page, notes on published accounts, and a page of current statistics. It is confidently expected that *Accountancy* will have a widespread appeal to members of the profession, and also to those outside it who are directly and indirectly interested in the accountant's field. *Accountancy* will be published on the first of the month, as is the case with the present *Journal*, and the year's volume will, as hitherto, run from October

to September. The ordinary subscription rate will remain the same, namely, 12s. 6d. per annum post free, but students taking the examinations of the Society of Incorporated Accountants will be entitled to subscribe at the special rate of 6s. 6d. per annum post free. The price of single copies will be reduced from 1s. 3d. to 1s., postage extra.

It is hoped that with the October and November issues of *Accountancy* there will be published in supplement form extensive summaries of the main papers given in English at the International Congress on Accounting. The Congress is to be held in Berlin from September 19th to September 24th, and very important contributions to accountancy will undoubtedly be made. The President, Mr. Walter Holman, will attend on behalf of the Society, accompanied by the other official delegates, Mr. Percy Toothill (Vice-President), Mr. E. Cassleton Elliott, Mr. R. Wilson Bartlett, and Mr. A. Stuart Allen (Members of the Council), and Mr. A. A. Garrett (Secretary).

It becomes increasingly clear that the Government will have to do something about Clause 9 of the "Share-pushing Bill," even if other clauses remain substantially unaltered, which is an unlikely outcome. As it stands Clause 9 is drastic enough to make the most innocuous investment adviser wonder what his position under the Bill might be. For it is this Clause which lays down the maximum penalty of seven years' penal servitude if any person "induces or attempts to induce" anyone to buy, subscribe for, or underwrite securities by :

- (1) "Any statement which he knows or could reasonably be expected to know, to be false, misleading or deceptive."
- (2) "Any dishonest concealment of material facts."

- (3) "Any promise or forecast which he has no reasonable grounds for supposing to be likely to be fulfilled or verified."

Of course, no one seriously believes that investment advice given in good faith by a stockbroker, a financial journalist, a banker, or—of more direct concern to our readers—an accountant, is likely to come within the penal clause when the Bill has finished its passage through the House of Commons. Yet as the words now stand "any promise or forecast which he has no reasonable grounds for supposing to be likely to be fulfilled or verified" covers a very wide field, and would apparently include cases of negligence. If that is a correct interpretation, this Clause will undoubtedly undergo substantial modification at a later stage.

It also appears that as the Bill now stands, accountants, unlike banks, might not be deemed exempted dealers for the purposes of the Act under Clause 12. The question arises, does it follow from this that they would not be permitted to deal in securities? "Dealing in securities" is defined so as to include offering to make or inviting any person to make an agreement for purchase or sale of securities, and might, it appears, include services which accountants have been wont to perform for their clients. If that were so, the Bill would unduly restrict the accountant's activities. This is another point which may need modification when the Bill comes to be considered by the House of Commons. If an accountant or firm of accountants could obtain a licence to deal in securities under Clause 1 of the Bill the point would apparently not arise, but although this is not excluded under Clause 1 it does not appear to be within the intention of the Bill, and indeed there may be some reasons to doubt whether from a professional point of view power to obtain such a licence would be desirable.

A result of the frontal attack on share-pushing, which, initiated by the Bodkin Committee's report, has been carried much further by the recent "Share-pushing Bill," is seen in the formation of the Association of Stock and Share Dealers. The Association is intended to be a body with disciplinary control over its members, who would consist of share-brokers and dealers outside the recognised Stock Exchanges. If, as is likely, the Association obtains recognition from the Board of Trade on the passing of the Share-pushing Bill, membership of the Association would absolve brokers and dealers from the provision whereby they should annually apply to the Board for a licence.

The Rating and Valuation (Air Raid Works) Act and a similar Act applying to Scotland, provide that the value of any additional room or other additional part of a hereditament used for air-raid protection shall not be taken into account in valuations for rating purposes. The proviso is added that use must be solely for air-raid protection, but the force of this proviso is diminished by an official statement that "solely" does not exclude other occasional uses as, for example, for air-raid drill. A Section in the Finance Act gives similar relief from income tax under Schedule A, except in the case where the building is let at a rent increased by virtue of the facilities for air-raid protection. Depreciation on the additional part of the premises is allowed.

There has recently been introduced into the South African Parliament a Bill "for the registration, qualification, designation, and control of accountants and auditors." This Bill follows closely the draft Bill recommended by the Commission appointed in South Africa four years ago to consider the question of registration of the accountancy profession. It is a very comprehensive measure, and the professional accountancy bodies in South Africa are naturally taking an active interest in its progress. The Bill has passed through the second reading, and has now been referred to a Select Committee; it must, however, be regarded as uncertain whether it will reach the final stages during the present session of the South African legislature.

At some time or other we have all been taught that the capital market is the perfect example of free competition. But now, as though to emphasise that perfection is never achieved in this world, there comes the news that a company has been formed to aid the free flow of capital from one international centre to another. The necessity for the new organisation, a British company known as The International Certificate Depositary Company, arises out of the fact that the sale and purchase of registered securities, forming the bulk of securities of the British and American Stock Exchanges, entail formalities which the continental investor, who is used to the bearer form of securities, tries to avoid. The new company will issue bearer certificates against registered securities; these certificates will change hands in easy fashion on the French, Swiss and other capital markets, and the negotiability of the underlying securities, which will

be kept in safe deposit by the company, will thus be enhanced, though in vicarious fashion. The certificates will have dividend coupons attached to them. A small commission deducted from the coupon payment, together with a charge on the issue of the certificates themselves, will form the remuneration of the organisation. For the time being, partly because of the trend of values in the market, attention will be confined to American registered securities, but at a later stage the operations of the company may be extended to British securities.

In a recent case which came before the Court of Appeal, the circumstances were that certain creditors who attended a meeting of creditors failed to register opposition to a resolution that the debtor execute a Deed of Assignment, and to a second resolution that a Committee of Inspection be appointed. These creditors afterwards expressed themselves as disapproving of the resolutions and, the Deed of Assignment being relied upon by the petitioning creditors as an act of bankruptcy, the Registrar made a Receiving Order against the debtor. The Court of Appeal held, however, that the petitioning creditors by their failure to register their opposition to the resolutions must be taken to have acquiesced in them and to have participated in bringing the Deed of Assignment into existence. Consequently the Court dismissed the petition under section 5 (3) of the Bankruptcy Act, 1914, holding the Registrar to have been wrong in making the receiving order. It was too late for petitioning creditors to object to the resolutions after they had been passed. By this decision it is clearly established—as, indeed, it appeared already to have been established by the case *In re A Debtor*, 1936 (Ch. 165)—that creditors who remain silent when particular propositions are made at a meeting of creditors thereby acquiesce in the propositions. The appeal case was *In re A Debtor* (No. 382, 1938) *ex parte The Debtor v. The Petitioning Creditors and the Official Receiver*.

The objects clause of the Memorandum of Association of a company is not overridden by sect. 153 of the Companies Act, 1929. This was the decision of Mr. Justice Simonds in the case *In re Ocean Steam Navigation Company, Limited*. In this case the company petitioned the Court to sanction a scheme of arrangement with the company's creditors under sects. 153 and 154 of the Companies Act. Shareholders holding a large number of shares opposed. The scheme involved the sale of the undertaking and realisation of its assets, and this was not contained in the

objects clause of the Memorandum of Association. His Lordship held that sect. 153 of the Act did not confer a power on the company which was not contained in the Memorandum of Association. Usually, of course, the power to dispose of the undertaking while the company is still a going concern is embraced within the objects clause, but in this instance it was *ultra vires* the company and His Lordship could not therefore sanction the scheme. His Lordship intimated, in the course of his judgment, that had the Court possessed jurisdiction under sect. 153 to sanction the scheme he would not have refused to exercise it in favour of the petitioners, despite the fact that the shareholders would obtain under the scheme no benefit in the assets of the company. Whether or not in this particular case the directors of the company, if they had refused to assist the creditors to proceed under sect. 153, leaving them only the alternative of putting the company into liquidation, would have succeeded in obtaining something for the shareholders, was a matter of opinion. However that might be, the directors had assisted the creditors by putting forward the scheme. If he had possessed a jurisdiction he could not have refused to exercise it, since the jurisdiction under sect. 153 had consistently been exercised without regard to the wishes of the shareholders.

Fewer companies, having among them a smaller aggregate nominal capital, were formed in 1937 compared with 1936. The number of companies registered last year in England, Scotland and Wales was 13,344, compared with 14,381 in the previous year, and the combined nominal capital was £120,302,500, against £164,422,000. Allowing for companies dissolved or struck off the Register, the net increase in the number of companies last year was 6,099. Voluntary liquidations numbered 2,894 and there were 333 compulsory liquidations by order of the Court. These figures are given in the Annual Report by the Board of Trade, which is just published.

During last year there were 123 prosecutions under Section 110 of the Companies Act, 1929, for failure to file annual returns; in 85 of these cases convictions were obtained. There were 109 convictions under Sections 284 and 310 of the Act, for failure by receivers and voluntary liquidators to file accounts, and in 83 of these cases there were convictions. In addition, Section 224 of the Companies (Consolidation) Act, 1908, was invoked 37 times, for failure by voluntary liquidators to file accounts, resulting in 31 convictions.

THE AUDITING OF UNIT TRUST YIELDS.

[CONTRIBUTED.]

DURING the past month several management companies have announced that the published yields on sub-units of their trusts will henceforth be certified by auditors, and the practice will probably become general. This move must be recognised as a genuine attempt to protect the investing public against the unscrupulous manager, for it is of the nature of unit trusts that the manager depends for his profit upon the stimulation of the demand for sub-units, and the advertisement of a high yield is a powerful stimulus to sales. It is therefore very necessary that any accountant certifying a yield should satisfy himself that the calculation has been made on a sound basis.

The following form of certificate is submitted as covering most of the points to which the auditor should give attention:—

"We have examined the records of the X.Y.Z. Unit Trust and certify that the yield on the sub-units at a price of is .. per cent. per annum. This yield is based on the securities held in this Trust on, and on the dividends and cash income bonuses declared by the respective companies during the preceding twelve months. To the gross dividend declared on the securities has been added any benefit obtainable from Dominion Tax Relief. Allowance has been made for all expenses, including managers' and trustees' remuneration, and adequate provision has been made for amortisation of investments in mining and other companies owning wasting assets."

Something may be said in explanation of the points raised in this specimen certificate.

In the first place, as was pointed out in a professional note in the *Journal* last month, the yield must be adequately explained as relating to the past, and not as guaranteeing future income. The past must, of course, be the recent past, and allowance should be made for change in interim dividends. The relevant dividends for a year might be, for example, a final of one year and an interim of the next year; and in no case should more than twelve months' dividends be included.

Further, the accountant's certificate must relate to *income* only; a certificate which included in the stated yield the return from sales of bonus shares would be entirely ruled out. Every distribution from sources other than cash dividends and cash income bonuses must be

reckoned as a return of capital to the unit holder, and therefore not be stated as "yield."

Furthermore, even "cash dividends and cash income bonuses" may require qualification, since some trusts hold wasting assets such as mining shares. The *Economist* has estimated that certain trusts derived as much as 30 per cent. of their income in 1935 from gold mining shares. Yield figures should take into account the necessity of setting aside a part of income for the purpose of amortising such wasting assets. Or, if the auditor feels that a decision as to what is appropriate amortisation is outside his province, then at least the yield certificate should include a statement of the proportion of income derived from such sources. It is important to repudiate the suggestion made by some managers that when the wasting assets have an estimated life longer than the life of the trust, no provision for amortisation is needed.

Trustees' and managers' remuneration, if chargeable against income, must, of course, be taken into account in the same way as amortisation as a factor reducing the yield.

The questions so far dealt with concern both fixed and flexible trusts. Flexible trusts have, in addition, problems peculiar to themselves. There are already indications that certain managers have attracted new investors by advertising high yields achieved in the early stages of a trust by consistently buying securities full of dividends, only to be forced to cut the distribution severely at a later date and so falsify the expectations by which investors were attracted. To check this practice, the auditor should decline to certify, for a flexible trust, a yield based merely on past income received by the trust or distributed to certificate holders. An unexceptionable alternative for the auditor is to compute a yield based on the dividends and cash income bonuses declared in respect of the preceding year of the trust on the securities held on a definite date, adjusting for the effect of any alteration in the date of payment of dividends which causes the trust to receive in the year more or fewer dividends than are appropriate to one year.

The yield having been calculated on the lines indicated, what use should be made of it by the managers, and what responsibility would rest with the auditor? The yields so calculated would be statements of fact concerning the past, and the wording of the auditor's certificate would define them as such. Sometimes it might appear reasonable to assume changes in annual dividends in the future (when, as in the case of Courtaulds, for example, an interim dividend has been cut), but whilst it is true that an

informed guess about the future may be of more use to an investor than a mere fact about the past, any modification of the formula for computing yield which gave the auditor more discretion would saddle him with an unacceptable responsibility. Responsibility for adjusting a yield to take account of any alterations in declared dividends since the date of the certificate would rest with the manager.

REVOCABLE SETTLEMENTS UNDER THE FINANCE ACT, 1938.

THE Finance Act, 1938, has considerably affected powers of revocation contained in settlements, and for all practical purposes the presence of such a power in a settlement will render the trust income the notional income of the settlor for tax purposes. The provisions of this Act in that connection, moreover, are retrospective. They will affect income tax for 1938-39 and subsequent years, and surtax for 1937-38 and subsequent years.

But some measure of relief against the retrospective operation of the Act is afforded in the case of settlements executed prior to April 27th, 1938. An opportunity is afforded to settlors to put their houses in order in such cases, but a time-limit, expiring on October 29th, is imposed for this purpose.

Two questions arise. In the first place, how are powers of revocation affected? In the second place, how may existing settlements which offend against the Act in these respects be put right within the allotted time, so that advantage may be taken of the limited relief available? Such relief in any case, it should be noted, can only be claimed in respect of sums payable in the years 1937-38 and 1938-39, and it is only in such cases that the deeming effect of sect. 38 of the Act can be avoided at all.

For this purpose covenants for the payment of annuities must be distinguished from capital settlements by transfer of capital to trustees. Under sect. 38 (1), a covenant for the payment of an annuity, containing a power of revocation whereby any person has or may have the power whether immediately or in the future, with or without the consent of any other person, to revoke the settlement, with the result that the settlor or the spouse of the settlor will or may cease to be liable to continue to make the payments, will have this consequence, namely, that all the trust income thereunder will be deemed to be the settlor's notional income.

A similar consequence will ensue where the liability to continue to make the payments will or may cease on the payment of a penalty.

There is a saving provision, however, for cases where the power of revocation cannot be exercised for a minimum period of six years from the time when the first of the annual payments becomes payable, provided that the like annual payments are payable in each year throughout that period.

But even if a settlement is not a revocable settlement by sect. 38 (1) of the Act, in cases where the settlor or the spouse has an interest in the settlement, the undistributed income of the settlement will *pro tanto* be regarded as the notional income of the settlor. "Undistributed income" for this purpose is defined in sect. 41 (4) (d). Cases where such an interest exists consist of those where any of the trust capital or income is or will or may become payable to or applicable for the benefit of the settlor or the spouse, except in the circumstances set out in provisos (a) and (b) of sect. 38 (4)—for example, where the beneficiary becomes bankrupt, &c.

Further, under sect. 39, even though the settlement is not a revocable settlement and even though the settlor or the spouse has no such interest in the settlement within sect. 38 (3), annual payments made by the settlor or the spouse under a covenant for annuity payments will in any event be treated as the settlor's notional income, to the extent to which the trust income is not distributed.

Let us now consider the provisions as to relief with regard to revocable settlements under which the trust income is the notional income of the settlor, *solely* by reason of the deeming effect of sect. 38 (1). In such cases in order to obtain the necessary relief under Part II of Schedule III in respect of payments for 1937-38 and 1938-39, the following conditions must exist:—

1. (a) The settlor must voluntarily and without any consideration have released the offending power of revocation and this must be done by October 29th, 1938; or

(b) The settlor must have made the like continuous annual payments for at least seven years up to and including the years 1937-38 and/or 1938-39, as the case may be.

2. The settlement must by October 29th, 1938, have been revoked, and a new settlement without the offending power have been made by that date, for a period which when calculated with reference to the date of the first payment made under the revoked settlement would constitute a minimum period of six years.

As regards capital settlements under sect. 38 (2), if the settlement contains any such offending power of revocation, and if in consequence the settlor or the spouse will or may become beneficially entitled to the trust capital or income or any part thereof, the whole or the corresponding part of the trust income will be the notional income of the settlor.

There is a similar saving provision for cases in which the power of revocation cannot be exercised within six years from the time when any particular property first became comprised in the settlement and the income from that property will not be notionally treated as the settlor's income so long as the power cannot be exercised.

In the case of capital settlements coming within sect. 38 (2), the settlor will have until October 29th, 1938, within which to release the offending power voluntarily and without consideration in order to claim the limited relief for payments made in 1937-38 and 1938-39.

But in the cases of both covenants for annuities and capital settlements, compliance with the above requirements of the Act will still dis-entitle the settlor to the relief either wholly or in part, to the extent to which the income in the above years 1937-38 and 1938-39 has not been distributed. Further, relief will similarly be lost to the extent to which capital sums are paid to the settlor or the spouse in such years by the trustees or by any body corporate connected with the settlement, for in such cases the amount of such capital sums will under sect. 40 be treated as the notional income of the settlor.

DECEASED LIFE TENANTS.

WHEN the balance of our minds has been a little disturbed by an unexpected legal decision, there is something rather reassuring in the thought that law abhors a novelty almost as much as Nature abhors a vacuum.

One of the best known rules in Trust Accounts (if any such there be) is that when securities are sold *cum div.*, the whole of the proceeds are treated as capital. This rule, called the rule in *Scholefield v. Redfern* (1863, 2 Dr. and Sm. 173) is obviously detrimental to the tenant for life who gets no part of the accruing dividend. But there is the reciprocal rule in *re Clarke* (1881, 18 Ch.D. 160) which established that when an investment is bought *cum div.* the whole of the first dividend received is to be regarded as income. It may be rough justice, but it is justice of a kind.

These are the rules where there are changes in investments in the course of administration; do they apply in the event of the death of a tenant for life? For example, if an estate consisted of £10,000 3½ per cent. War Loan and the life tenant died on March 1st, 1938 would the

personal representatives of such life tenant be entitled to approximately one-half of the interest due on June 1st? Presumably there would be an apportionment if the interest were actually received by the trustees. Suppose, however, that it is not received owing to the War Loan having been sold *cum div.* on (say) April 1st. Should the rule in *Scholefield v. Redfern* be applied? Or should the fact that it is obviously possible to calculate what the interest on £10,000 3½ per cent. War Loan would be for three months entitle the estate of the deceased life tenant to the accrued amount?

Let us first consider *Bulkeley v. Stephens* (1896, 2 Ch. 241) in which the decision was in favour of apportionment, but on facts that were unusual. The will in that case contained a direction for the transfer in specie to the remaindermen of securities comprised in a settled estate. For convenience of administration certain securities were sold. It was held that, notwithstanding the sale, there should be an apportionment of income to the date of death of the life tenant. Now this case may be an authority for saying that if apportionment can be made it may be made where there is no sale or the testator intended there should be no sale. But it is not an authority for saying that even in the event of sale an apportionment will be made if it can be made with reasonable certainty. And it is a further question whether in the circumstances of any particular case it is possible to arrive at a satisfactory figure for the purpose of apportionment.

In the recent case of *In re Winterstoke's Will Trusts, Gunn v. Richardson* (1938, 1 Ch. 158) the facts were that certain trusts were created by the will of the first Baron Winterstoke. On the death of a tenant for life in the income arising from a moiety of the settled estate, the trustee applied to the Court for directions as to the treatment of the proceeds of sale of certain securities. The securities were sold *cum div.* (for the purpose of paying death duties) and it appeared by calculation that if an apportionment were allowed the estate of the deceased life tenant would benefit to the extent of £2,160 13s. 1d.

Clauson, J. (as he then was), "in order to deal with the question of principle in simple language," took the case of Government securities carrying a half-yearly dividend and assumed two successive life interests. He thought no one would doubt that the estate of the first tenant for life would be entitled to an apportionment assuming (i) that no change in investments took place, and (ii) that the next dividend was duly received by the trustees. It seemed clear to him also that this right of the first tenant for life should not be dependent on the existence of a second tenant for life. In other words, the same result would follow if the trust had been to A. B. for life with remainder to E. F. as if it had been to A. B. for life with remainder to C. D. for life with ultimate remainder to E. F.

Now, clearly, the argument to this point did not dispose of the problem because the learned judge had yet to consider how it would be affected by sale. Accordingly, we find him saying that the principle is that the trustees when they sell the securities ought so to arrange matters as to preserve, if they reasonably can be preserved, the rights of A. B. The apportioned sum appeared in the summons as £2,160 13s. 1d., and it appeared to him that when there was no difficulty in ascertaining the figure which would be payable to the executors of the tenant for life, the trustees might properly deal and ought to deal with the matter in the way he had indicated, that is to say, by accounting to the executors of the tenant for life for the apportioned dividend.

Accordingly, as matters stood immediately following the decision, the position was that :

- (i) on a sale of investments in the ordinary course of administration, the proceeds are wholly capital (*Scholefield v. Redfern*) ;
- (ii) on a sale on the death of a life tenant there is an equity to an apportionment if an apportionment is possible (in *re Winterstoke's Trusts*).

As a result of what was felt to be a somewhat novel decision, and the uncertainty thereby created, the question came before the Court again in *re Firth, Sykes v. Hall* (1938, 1 Ch. 521). In the Schedule to the summons asking for directions the securities were split up into four classes : I, Government or Municipal Loans ; II, Debenture and Preference Stocks the interest or dividends on which were not in arrear ; III, Ordinary and Deferred Stocks ; and IV, Debenture and Preference Stocks the interest or dividends on which were in arrear. The summons asked whether in the case of the stocks, funds and securities falling within one or other of the several classes specified in the Schedule thereto any and what apportionment or adjustment in respect of income in favour of the estate of the tenant for life should or ought to have been made. The plaintiffs were advised by a firm of London stockbrokers that "having regard to the day to day fluctuations in market sentiment and outside influences no fixed rule could be formulated as to the degree to which the imminence of the payment of a dividend or interest upon any given investment was reflected in the price paid by a purchaser." It is further to be observed that no calculation was submitted for the information or consideration of the Court.

The case came before Farwell, J., who after reviewing the authorities came to the conclusion that there should be no apportionment. In *Scholefield v. Redfern*, Kindersley, V.-C., had refused an apportionment on two grounds : first, the absence of any practice giving effect to the equity alleged ; and, secondly, the great burden which the introduction of the practice would cast on trust properties. In *Bulkeley v. Stephens*, Stirling, J., had allowed an apportionment only by way of exception to an admitted rule. The headnote to that case runs : "Held, that the estate of the tenant for life was not entitled under the Apportionment Act, 1870, to be paid out of the purchase money of the stock anything in respect of the dividend ; but inasmuch as if the trust had been strictly carried out in accordance with the terms of the will by transferring the investments to the beneficiaries, the representatives of the tenant for life would have been in a position either directly or through the trustees to obtain payment of an apportioned part of the dividend, their claim ought under the special circumstances of the case to be acceded to."

Farwell, J., said : "As Stirling, J., pointed out, and as he decided in the case before him, there may be special circumstances under which the legal personal representative of the tenant for life may be able to show why the equity should be asserted in his favour ; but in the absence of special circumstances I think that I am right in saying the practice always has been in cases of this kind that the tenant for life and his personal representatives do not get any part of the purchase price on such sales as this."

That seems to be the *ratio decidendi*. But after quoting at length from the judgment of Clauson, J., in the *Winterstoke* case, Farwell, J., continues : "I would point out that there is to my mind a serious difficulty in appreciating exactly what the learned judge meant in the case before him, because he says this : 'But it

appears to me that when the question has been raised and there is no difficulty in ascertaining the figure which would be payable to the executors of the tenant for life, the trustees may properly deal and ought to deal with the matter ' in a particular way. For myself, I am unable to see what difference it can make whether the calculation is an easy one or a difficult one. If the tenant for life has an equity which he has a right to assert in this Court, his right cannot depend on whether the sum which has to be done is one which can be done easily or which requires care and consideration.'"

It is, however, clear as a matter of arithmetic that once a dividend has been received or declared, even on ordinary shares, a day-to-day apportionment can be worked out, and worked out to a penny, as was done in the *Winterstoke* case. It is equally clear that at the time of sale, it would not only be difficult but impossible with any degree of accuracy or certainty to divide the price into the component parts of principal and accrued dividend : and if the price could not be so divided, no apportionment based on a period of time could be carried out.

Clauson, J., did not indicate the cases in which he thought the calculation would be difficult or impossible to make. Although the case he had to consider included ordinary shares (which are capable of constituting an insuperable difficulty if it is a question of apportionment at the date of sale) the parties had apparently agreed to the calculation being made at a subsequent date when the amounts of the dividends were known. He may have thought of other complications which were not before the Court for consideration ; or he may even have thought of a similar case where the parties had not agreed upon the sum to be allocated, though there might be no question as to the right to the apportionment subject to the possibility of calculation. It is not, therefore, certain that had *re Firth* come before him he would have directed an apportionment. On the other hand, since Farwell, J., rejects the test of ease or difficulty in making the apportionment he would probably have decided *re Winterstoke's Will Trusts* differently.

One last point. In a final comment on the *Winterstoke* decision Farwell, J., made it clear in the *Firth* case that in his opinion there cannot be an apportionment of some items and not of others. It must be a case of all or none ; it would be obviously wrong to make a distinction. But would this view commend itself to Clauson, J. ? Does any equity which there may be require something more than that similar cases should be similarly treated ?

The problems arising out of these decisions may thus be stated :—

1. Is there any equity in the tenant for life to justify an apportionment on his death even supposing that an apportionment is possible ? The decisions appear to be in direct conflict on this point.
2. Assuming that the first question is answered affirmatively, at what (if any one) date is it proper to make the calculation ?

This question remains undecided but in the perhaps unlikely event of the proper date being such that an exact apportionment would be impossible, *re Winterstoke* apparently decides that there should be no arbitrary apportionment.

3. In mixed cases where apportionment is possible in respect of some items and impossible in others, should apportionment be made where possible ?

Re Firth expresses, *obiter*, an opinion to the contrary : *re Winterstoke* is silent.

In view of the practical importance of the issue, it is to be hoped that it may be raised again and carried further.

INCORPORATED ACCOUNTANTS' RESEARCH COMMITTEE

Design of Accounts.

MOTOR TRANSPORT.

The Incorporated Accountants' Research Committee have undertaken the task of preparing specimen forms of accounts for various businesses and professions. Some of these specimen forms have already appeared in the *Incorporated Accountants' Journal*, namely, the accounts of Boot and Shoe Manufacturers (October, 1937), Brickworks (November, 1937), Building and Estate Development (December, 1937), Cinemas and Dance Halls (January, 1938), Cotton Merchants (February, 1938), Engineers (March, 1938), Farms (April, 1938), Garages (May, 1938), Hotels (June, 1938), Laundries (July, 1938), and Medical Practitioners (August, 1938). In April, 1937, specimen general forms of accounts were published, and in June, 1937, specimens of the accounts of Executors and Trustees.

Useful criticism and suggestions which have been received from readers on the forms of accounts already published will be carefully considered by the Research Committee. The accounts—which should not be regarded as model accounts but as bases for more definite formulation—are published with an invitation to readers to submit their comments and criticism.

A design for Motor Transport accounts is set out below.

A.—OPERATING ACCOUNT.

	£	£		£	£
TRAFFIC EXPENSES—			TRAFFIC RECEIPTS—		
I. DRIVERS AND CONDUCTORS—			(a) Passenger: Single and Return		
Wages and Bonus	—		Tickets	—	
State Insurance	—		Season Tickets	—	
Clothing	—		Private Hire	—	
II. PETROL AND FUEL OIL (including Duty)	—		(b) Goods	—	
III. REPAIRS AND MAINTENANCE			(c) Miscellaneous	—	
OF BUSES AND COACHES—					
Wages Materials					
Cleaning	—				
Lubricating	—				
Inspection	—				
Repairs,					
Overhauls	—				
and Paint-	—				
ing	—				
Tyres	—				
Workshop : Rent and Rates	—				
Power	—				
Heating, Light-	—				
ing and Clean-	—				
ing	—				
Depreciation	—				
Storekeeping Expenses	—				
Depreciation	—				
IV. GARAGE EXPENSES—					
Wages (Watchmen, &c.)	—				
Rent, Rates and Insurance	—				
Heating, Lighting and Cleaning	—				
V. TICKET EXPENSES—					
Printing	—				
Punches and Conductors'	—				
Equipment	—				
Ticket Office Salaries and	—				
Expenses	—				
Ticket Checking Staff	—				
VI. SUPERINTENDENCE—					
Traffic Checking Staff	—				
Control Office Salaries and	—				
Expenses	—				
VII. MISCELLANEOUS TRAFFIC EXPENSES—					
Insurance	—				
Licenses	—				
Shelters	—				
Signs	—				
TOTAL TRAFFIC EXPENSES	—				
VIII. BALANCE : NET TRAFFIC RECEIPTS					
(to Account B)	—				

B.—NET REVENUE ACCOUNT.

	£	£		£	£
IX. ADMINISTRATION—			NET TRAFFIC RECEIPTS (from Account A)		
Salaries of Manager, As-			OTHER RECEIPTS—		
sistant Manager, Secretary,			(a) Rents from Properties, less Ex-		
&c... ..	—	—	penses	—	—
General Office Expenses :			(b) Advertising	—	—
Salaries	—	—	(c) Interest on Investments.. ..	—	—
Rent, Rates and Insurance	—	—	(d) Cash Discounts	—	—
Heating, Lighting and					
Cleaning	—	—			
Printing and Stationery..	—	—			
Telephone	—	—			
Miscellaneous Expenses ..	—	—			
Accountancy, Audit and					
Legal Charges	—	—			
Bank Charges	—	—			
	—	—			
X. STAFF—					
Welfare Department and					
Canteen	—	—			
Training	—	—			
Medical Fees	—	—			
Superannuation Fund and					
Pension	—	—			
	—	—			
XI. ADVERTISING—					
Posters	—	—			
Newspaper Advertising ..	—	—			
Handbills	—	—			
Timetables (net)	—	—			
Maps	—	—			
	—	—			
XII. BALANCE : NET REVENUE ..					
	—	—			
	—	—			
	—	—			

LORD STAMP ON ANGLO-AMERICAN RELATIONS.

The fourth (1938) Jonathan Peterson Lecture was delivered at the Town Hall, New York, by Lord Stamp. The preceding lectures of the Trust were delivered by the Earl of Lytton in 1935, Sir Arthur Salter in 1936, and Lord Elton in March, 1937. The Lectureship was established in 1934 in memory of the late Jonathan Peterson with the object of promoting a better understanding among English-speaking people. Lord Stamp was introduced to his audience as "one of the most distinguished figures in the world of finance in the British Empire."

After dealing generally with his subject, the lecturer spoke on the work being done by the English-speaking Union, the George Watson Foundation, the Institution of Historical Research in London, the Anglo-American Historical Committee, and the Carnegie Endowment Scheme, providing for the interchange of University students between the two countries. In speaking of the work of the British Universities, Lord Stamp pointed out that some aspect of American History was included in an honour course. Among these Universities were London, Aberystwyth, St. Andrew's, Oxford, Bristol and Birmingham. So far as public schools were concerned, steady development was taking place. Some schools were taking advantage of the panel of speakers working under the Carnegie Endowment Scheme. The

Carnegie Trust was supplying books on the subject of American history and culture. London University had received 2,000 volumes, and fourteen other Universities in the United Kingdom had also received gifts of books. Among the books mentioned by the lecturer were Lord Charnwood's "Life of Lincoln," Charles A. Beard's "Rise of American Civilisation," D. W. Brogan's "The American Political System," "The Oxford History of the United States" (Morrison), "Epic of America" (Adams), and "American Literature" (Blankenship).

Turning to other aspects of this subject, Lord Stamp emphasised the great value of personal contacts through travel. The present writer, when in the States last year, noticed that the Cunard White Star Line sold passages to teachers and others on the instalment system over a period of twelve months, so that on payment of one month's instalment the journey could be started and the balance paid off over the agreed period. It seems rather a pity that something of this nature could not be arranged from the British point of view.

Is it possible that we may live to see the day when there will be an interchange of clerks between practising accountants in the United States and those of the United Kingdom?

Unfortunately this subject was not on the agenda of the Fiftieth Anniversary of the American Institute of Accountants, 1937!

INCOME TAX.

Dividends on Foreign or Colonial Securities.

The following notice has been issued by the Board of Inland Revenue:—

The Statutory Notice pointing out the obligations of Agents who are intrusted with the payment of dividends or interest arising from foreign or colonial securities, &c., or of annuities, pensions or other annual sums payable out of the funds of any institution in India, to deliver accounts of such dividends, &c., has already been officially issued.

At the same time attention is drawn to the amendments of the provisions of Schedule C and of Rule 7 of the Miscellaneous Rules applicable to Schedule D (relative to the taxation of foreign and colonial dividends) contained in section 23 of the Act and to the provisions for the taxation of funding bonds contained in section 25.

Under proviso (b) of sub-section (8) of section 23 the provisions of that section do not apply to the proceeds of any sale or other realisation of coupons sold or realised at any time after July 29th, 1937, and before April 27th, 1938, being coupons for any dividends or other payments payable at any time before April 27th, 1938, in respect of which provision was not made for payment at the due date in accordance with the obligations undertaken by the debtor; and under proviso (b) of subsection 5 of section 25 the provisions of that section do not apply to funding bonds issued at any time after July 29th, 1937, and before April 27, 1938.

The Board will accordingly be prepared now to refund—

- (1) any tax deducted and accounted for by bankers and coupon dealers in respect of the proceeds of coupons, sold or realised in the period beginning on July 30th, 1937, and ending on April 26th, 1938, which are within the scope of proviso (b) to sub-section (8) of section 23, and
- (2) any tax deducted and accounted for by paying agents in respect of funding bonds issued in that period.

It will be recalled that in their circular letter of August 19th, 1937, relative to the judgments of the King's Bench Division in the cases of the *Hon. Dorothy Wyndham Paget v. Commissioners of Inland Revenue*, and *G. H. Cross (H.M. Inspector of Taxes) v. London and Provincial Trust, Ltd.*, the Board, in order to ensure that repayments of tax in the types of cases dealt with in that letter might be duly made in the event of tax deducted being repayable, asked that lists should be furnished to the Inspector of Foreign Dividends showing the date and the amount of each payment from which tax was deducted, the full title of the security, and the name and address of the person to whom the payment was made. These lists will be treated as claims on behalf of the taxpayers concerned for refund of any tax repayable by reference to the provisions of sections 23 and 25 of the Finance Act, 1938, and the repayment due will be made to the individual taxpayers through H.M. Inspectors of Taxes in the respective Districts.

As an alternative to repayment to individual taxpayers, the Board would be prepared, where such a course is desired by taxpayers and bankers, to make the repayment to bankers on behalf of their customers in cases where the coupons had been sold or realised by the bankers, or the funding bonds had been issued to the bankers, for their customers' accounts. If this alternative procedure is desired bankers should notify the Inspector of Foreign

Dividends as soon as possible, and in due course forward to him a list of the items of claim accompanied by appropriate vouchers; the Inspector would, on request, return for this purpose the lists already furnished with the bankers' periodical returns.

TRAINING FOR BUSINESS MANAGEMENT.

The appeal for an Endowment Fund of £100,000 which was launched last September on behalf of the Department of Business Administration, at the London School of Economics in the University of London, has not yet achieved its full objects. It had been hoped to raise a sum the income from which would not only make the finances of the Department permanently secure, but would enable it to carry out several much needed developments. Further donations are urgently needed in order fully to achieve the purposes of the Appeal. The amounts so far subscribed will nevertheless be sufficient to ensure the maintenance of the Department on its existing scale for a further period of seven years; and University students who contemplate a business career and wish to devote a post-graduate year to special training, may plan their studies in full confidence that the course will continue to offer at least the same facilities as hitherto.

A recent important development for London evening students is a change in the regulations governing applications for L.C.C. Senior Scholarships. These are now available to students wishing to attend the Department's one year post-graduate course, provided that they have a London residential qualification. Applicants must have been employed in business, and have attended evening classes for at least two years at the London School of Economics or at a polytechnic or a technical institution. The Scholarships cover fees plus a maintenance allowance which, for self-supporting students, may be as much as £160 a year.

For the 1938-39 course there are available a Leverhulme Post-graduate Scholarship, value £120 per annum, and also a limited number of bursaries, equivalent to remission of fees.

FORTHCOMING EVENTS.

- | | |
|------------|--|
| Sept. 22nd | <i>South of England District Society.</i> At Southampton at 7-15 p.m. Lecture by Mr. Arthur Duxbury on "The Construction of Speeches, Reports and Business Letters." |
| Sept. 23rd | <i>South of England District Society.</i> At Bournemouth. Lecture by Mr. Arthur Duxbury on "The Construction of Speeches, Reports and Business Letters." |
| Sept. 29th | <i>Incorporated Accountants' Golfing Society.</i> Autumn Meeting at Sunningdale Golf Course (Sunningdale, Berks.) by kind permission of the Sunningdale Golf Club. |

The Organisation of an Accountant's Office.

A LECTURE given at the Incorporated Accountants' Course at Oxford, on July 16, 1938, by

COL. R. C. L. THOMAS, M.C., T.D., D.L.,
FELLOW OF THE SOCIETY OF INCORPORATED
ACCOUNTANTS.

OPENING REMARKS.

I heard a remark not long ago to the effect that anything that had been running on the same lines for ten years must be out of date. This is rather a startling statement as ten years pass so quickly, but while the assertion can, in some respects, be refuted, there is a great deal of truth in it; if our offices are not organised on up-to-date and efficient lines the output of work and results must suffer in consequence.

In a paper such as this, which is to be read to Incorporated Accountants most of whom are young, it is not my intention to discuss a complete office organisation, as to do this one would not have to define only the size of the office but the type of practice carried on. This would result in a very stereotyped affair—which I think would be unsuitable for this Oxford Course—and so, in dealing with such a comprehensive subject, I propose to touch on a large number of points in a very brief way, hoping that any amplification that may be desired will be dealt with in the group discussions.

THE ACCOUNTANT AND THE OUTSIDE WORLD.

In common with the older professions, we cannot advertise, and so the only way we have of bringing our capabilities before the public, apart from personal introduction, is by visible signs and contacts.

One's office should have the best situation and address that can be managed; so much of the outside of the premises as is in hand well kept, while the inside should present a mixture of efficiency and comfort. Notepaper and stationery cannot be too carefully selected, bearing in mind that letters and statements well turned out create a favourable impression, while any sort of description other than "Incorporated Accountant" (on notepaper, &c.) does not conform to the standards set for members of our Society.

We must take into account the opinion of the outside world and in this connection large firms have, in some respects, a distinct advantage over smaller ones. Speaking for the provinces, amalgamation of firms of Incorporated Accountants has not yet made much progress, but you may care to consider the advantages arising.

OUR OWN OFFICE ACCOMMODATION.

I suppose we spend more time in other people's offices than members of any other profession and we gain much experience in the process; as a consequence, we should hardly need to take long discussing the comfort and accommodation in our own office, but I hope a few words on the subject will not be out of place.

To do good work one must be comfortable, and this implies adequate desk accommodation and well-heated, well-lighted and well-ventilated rooms—not always too easy where space is valuable and buildings old. I do suggest, however, that where conditions need attention much can be done to effect improvements with very little outlay; a simple rearrangement of artificial lighting would frequently be a vast improvement, while I have known a very ordinary thing, such as a draught protector, being all that was needed to turn a cold room into a warm

one; but unless these matters are dealt with when mentioned they are forgotten and the trouble goes on.

The layout of office buildings differs so much that the allocation of rooms can only be dictated by the accommodation available, but the elimination of unnecessary noise and movement is important and must be considered. It is obviously desirable for typewriters, duplicators and adding machines to be in a place where they do not disturb the principals and the rest of the office staff. Methods of inter-room communication are so well known that it is not necessary to spend any time on these; but I do notice many offices stint their post office telephones. For a few shillings a quarter a telephone extension can be placed on a desk and so save considerable running about with papers and, in fact, if there are enough of these extensions they provide an excellent method of internal communication where a house telephone is not installed.

So much for our own office accommodation, which, like everything else, needs periodical overhauling.

GENERAL ADMINISTRATION.

May we now turn to matters affecting general administration, taking as the first point correspondence inwards?

CORRESPONDENCE.

Many hold the idea that all incoming letters should be opened by a principal and where this is possible it has everything in its favour, whilst dating and recording the incoming mail as a routine duty should be established. We then reach the point of sorting and distribution, where the size of the office and number of principals is such a vital factor that I will not take the point any further beyond saying that while each partner takes on the responsibility for his own circle of work as a matter of course, the more he knows about other matters passing through the office the better, and the easiest way to cope with this is through the incoming mail.

All correspondence outwards commits the firm and, as a general rule, should be signed by a principal. Many letters will have been dictated by members of the staff, but in these cases, if the clerk responsible initials the copy as having examined the details, the principal is assured that everything has been checked. Personally, I do not like to see staff initials typed on original letters, as it is apt to make a client think that his affairs may not be receiving proper attention by the principal. The signing of letters in batches during the day is a great help, not only to the staff but also to the G.P.O. in their "Post early" campaign.

The form and "make-up" of sets of accounts to be presented must be considered. A good folder is certainly expected and is a necessity, while I suggest that the less voluminous the actual accounts are themselves the better; by this I mean that details can often be given much more conveniently in accompanying schedules instead of overloading the entries in the accounts, while a well-worded report on particular points is always appreciated. Comparative figures to the nearest pound should be included as an up-to-date requirement, and I should like you to consider the entire omission of shillings and pence even in the current figures.

I must mention the question of clerical errors, which is a matter of such importance that it has to be constantly borne in mind. This risk is greatest when the figures are being typed and even in spite of careful calling over errors may still arise. The only real safeguard that I can suggest is for the person who drafted the statement, whether he be a principal or a member of the staff, to take part in the checking. This gives him a final review

of his work and the matter can then be released with absolute confidence.

A good many years ago I went to a lecture given by the late Mr. G. S. Pitt, a Past President of the Society, when he dealt with the accounts of private traders, and I well remember he advised in such cases including schedules of debtors and creditors with the accounts, a practice which has now become much more general and is really a valuable safeguard to the accountant.

In connection with the point of correspondence, as appearance counts so much may I be forgiven for reminding you that for a very small outlay typewriters can be kept up to date and keys varied; a dollar sign (\$) may be wanted, while a machine with a keyboard containing fractions such as $\frac{1}{2}$, $\frac{3}{4}$, &c., and a + and = sign turns out far neater work than one on which these matters are the subject of manipulation.

FILING.

With regard to filing, there are a number of excellent systems, all of which depend on the supervision of the filing clerk for their success, as there is no surer way of losing a paper than putting it on the wrong file.

One satisfactory system of filing has been found to consist of a separate folder for each matter affecting each client, e.g., "X.Y.Z. Co. 1937 Accounts," "X.Y.Z. Co. Income Tax," "X.Y.Z. Co. Monthly Statements," &c., the group of files concerning the client being kept together in drawer files or cabinets.

Duplicate copies of all correspondence are taken on different coloured paper, one copy being filed on the client's file and the other in a loose leaf letter book, in date order. A file register is kept, recording all files created, with their location, as it is only in exceptional cases that a complete filing room is available, though this is, of course, the ideal, particularly if the room happens to be a fireproof one on the same level as the offices.

Under the system I am outlining, files are cleared when necessary, parcelled up to keep them clean, what they contain and the period concerned are clearly marked, and the bundles are then stacked on shelves in a storeroom in alphabetical order. A principal should inspect the storeroom at definite intervals and decide what papers can be removed and destroyed; a note is made in the file register of all movements of files right up to their ultimate destruction.

A grave responsibility rests on us in the matter of safeguarding books, papers or, possibly, deeds and securities entrusted to our care by clients. I refer in particular to loss or damage by fire, and the only safeguard against this is obviously to keep them in some fireproof place. A fireproof strong room large enough to contain all files, books and the like, is the ideal arrangement and everything should be put away there every evening when the office is closed. Failing such a comprehensive arrangement, one is thrown back on fireproof containers, such as safes, to hold the more valuable books and papers. This is a matter to which we, as Incorporated Accountants, should, I suggest, pay particular heed.

FINANCIAL BOOKS.

I propose to deal only very briefly with our own financial books, as to go into them at all deeply on a course like this seems rather like "bringing coals to Newcastle."

It is a recognised fact these days that clients' moneys should be kept separate from the firm's. This, I think, has never caused the accountancy profession any trouble, principally because we are trained on the basis of keeping things separate. In many of our activities it has always been compulsory to do so, e.g., receiverships, bankruptcy, deed of arrangement matters, &c., whilst a number of

other affairs we administer, such as trust estates and so on, all have their own bank accounts and do not come into our professional books at all except, possibly, to record disbursements paid out for sundry expenses and, of course, the receipt of the fee periodically. An insurance premium account may be involved and there are, of course, from time to time income tax recoveries, but the method of keeping these and other similar items separate does not and never can cause Incorporated Accountants any difficulty.

As a profession we always advise our clients to keep their books on the self-balancing principle, and there is no reason why our own books cannot be on that basis; in fact, they should be. If the insurance matters are of sufficient importance, it is, I think, a generally accepted idea that there should be separate ledgers for the "Insurance" and "General" sides. If this is the case, it only means additional columns in the cash book and journal—with all of which we are so familiar—to place our own office books on the self-balancing system, while naturally our own ledgers will be loose leaf ones. Where it is not done already, the signing of the annual accounts in the private ledger by all partners is most desirable and really essential where the goodwill valuation is varied from year to year.

A great deal of analysis work is saved if the stamp and petty cash books are kept with analysis columns, but this, again, is so well appreciated that while, some years ago, it was still something of a novelty, nowadays one meets it everywhere. Petty cash should be kept on the imprest system and the usual precautions we advise our clients to take over stamps and petty cash applied to our own office, while daily bankings should be the rule.

TIME RECORDS.

Time records are, of course, highly important and only of service if, as with the filing system, they are kept properly up to date and supervised. There are a number of ways in which to record time, but quite a simple and efficient one has been found to consist of supplying each member of the staff whose time is chargeable with a pocket diary. This is analysed once a month, or more often, on to a card index which, in turn, is summarised into the headings desired: "Principal," "Senior," "Junior," &c.; and so the whole time taken on any particular work is immediately available.

STAFF MOVEMENTS.

The keeping of registers is a matter of discipline and each practice dictates its own requirements in this respect. It is important to know the location of members of the staff when out of the office. This again can be done in various ways. A movement book is one method, while another perfectly satisfactory way, which causes a good deal less trouble, is the provision of a staff board in the office with "In" and "Out" slides. This registers at a glance who is in the office, and on leaving for any purpose it is the duty of the member of the staff to report where he is going. Principals can assist very much in this direction by recording their own movements.

REGISTERS.

Where many deeds are handled it is essential to have a register for these and although it is apt to be rather a cumbersome matter, a register of clients' books received and despatched should be kept.

STAFF TRAINING.

With regard to staff training and organisation, I should like to quote an extract from Sir Thomas Keens' address on this point at the Cambridge Course held in 1934:—

"Amongst the objects of staff training and organisation are the promotion of the most efficient service of the firm as a whole to its various clients, the smooth running of

the firm's work both as regards principals and clerks, the training of juniors in the work of the profession and securing a succession of the right type of men for positions of responsibility to provide for the continuity of the firm's practice and the enhancement of the public estimation of Incorporated Accountants."

These remarks sum up the whole position in a very few words. In our Society we recruit the beginners from two sources: article clerks and non-article clerks.

As regards article clerks, they are, of course, in a privileged position in so far that they have the right, by virtue of their articles, to be instructed in their professional duties. The principal directly undertakes this duty, and while he does not necessarily do the instructing personally, the article clerk undoubtedly has the right to consult him for advice on all matters concerning his career. It is certainly the responsibility of the principal to see that the article clerk gets his fair share of experience and that the senior members of the staff adopt a helpful attitude.

Owing to the special by-laws of the Society, non-article clerks have a golden opportunity for making progress, but they have a much sterner time of it. For this reason I have very strong feelings that it is most desirable that junior clerks taken on in Incorporated Accountants' offices should hold the necessary educational certificates to exempt them from our Preliminary examination. The idea speaks for itself; if the non-article clerk entering the office has the necessary educational certificates he has a definite object in view from the very outset and a world-wide diploma within his grasp, providing he has the ability and is prepared to work. A youngster without the scholastic record which exempts him from our Preliminary examination, after a short while, realises his deficiencies and it is then often too late; he is disinclined to take up school books again; he feels he is in a blind alley and seeks to find some commercial work with probably more salary, for the time being, but doubtful prospects.

A great deal has been said from time to time about area coaching schemes for article clerks, and from what I can hear in certain areas, good work is being done in this direction. Although this may make studying more acceptable and easier for some candidates, I do not think that there should be any feeling of discouragement in districts where these classes are not held. It is by the individual's own work that examinations are passed.

STAFF ORGANISATION.

Now with regard to staff arrangements generally, a well trained and "balanced" staff is the sign of a well organised firm, by which I mean senior, junior and article clerks in due proportion, all of whom have been subject to careful selection and training. This state of affairs should ensure promotion from within when a vacancy occurs, which not only instils keenness but also contentedness, both of which qualities are necessary for the smooth running of the office.

Typists, telephone operators and the like should be the subject of equally careful selection and firmly impressed with and taught the need for secrecy in exactly the same way as the audit staff.

The receipt of messages and the receiving of callers must be dealt with in a prompt and businesslike way, as a very bad impression can be given by lack of attention to this. While mentioning callers, I would remind you of the necessity for notes of telephone conversations and interviews with and on behalf of clients, which notes need to be made as soon as possible after the conversation to ensure not only that they are made but that they are accurate.

As the work of the staff is chiefly connected with audits, I must certainly deal with that aspect. The group system

is largely in favour, by which it will be well understood that a senior, semi-senior and two juniors work together on a series of audits, of which the senior is in charge. This is the accepted method of to-day, but I suggest these groups should not be made too permanent by letting their annual circle of work be always the same. A change round is frequently to everyone's benefit, whilst a uniform system of ticking and passing vouchers and the like should be insisted on throughout the office.

The audit programme is a matter of great importance and although settled by a principal in the first instance, must be varied from time to time as circumstances require and the staff engaged on an audit should be taught that their working papers should be constantly in a state to be readily taken over should circumstances make this necessary.

It is a growing practice with many firms to sectionise their work in separate departments, i.e., taxation, secretarial matters, bankruptcy and estates. I hope to hear expressions from the discussion groups on this arrangement, as, although there is a great deal to be said for it, unless staff members are drafted in and out of these special departments, they lack general experience. It certainly is not to the benefit of our Society as a whole to deny the younger members opportunities of experience in everything which is not pure routine audit work.

Arrangements for staff holidays and examination preparation time for article clerks are difficulties with which we are only too familiar, but in common with all our fellow countrymen we must now face up to our share in the programme of National Defence. I am quite sure that Incorporated Accountants will not be found wanting in this direction; not only by undertaking some form of service themselves, whether it is with the Armed Auxiliary Forces or on the civic side as Special Constables and Wardens under the Air Raid Precautions Scheme, but also in the encouragement of staff members to do likewise.

While overtime should be the exception and not the rule and time spent on holidays and National Defence is an admitted necessity, most certainly absence through illness is not, and I ask you seriously to consider the question of health of staff. Fresh air and exercise are not easily obtained in big centres and while "Keep Fit" classes do wonders, we have still to break down our national tendency of disliking exercise unless it involves some form of sport.

There is a rather recent tendency to ask staff members to submit voluntarily to inoculation when the necessity arises, and in one particular direction, i.e., the common cold, this is in quite an interesting experimental stage.

OFFICE LIBRARY.

The office library is important and should be kept up to date. One finds in some quarters a disinclination to spend money on new books; this is a mistaken economy. Periodicals intended for the library should be systematically bound.

INDEMNITY INSURANCE.

I must refer, possibly as a matter for discussion, to the advisability of effecting an accountant's indemnity insurance. Little was heard of this form of insurance until after the War, but it is now fairly extensively advertised and has a great deal in its favour; in fact, once it has been introduced in an office a good deal of moral courage would be needed to stop it.

PENSION SCHEMES.

The last, but not the least important, point I want to bring to your notice is that of staff pension schemes. As a profession we have not made any great progress in this direction but I do not think we are any more backward

in this connection than any other profession. It may be that, generally speaking, the staff in a professional office is not so permanently fixed as in a trading concern. However, this matter is now receiving a certain amount of prominence in the professional press and was discussed at the recent Conference of District Societies, and we as members of our Society must certainly not fail to consider it for ourselves. The trouble is, of course, that pensions schemes cost money and, to be of real interest, the pension must be of consequence.

I have recently seen a scheme established by some accountants in conjunction with two leading life assurance societies which, very briefly, is that the employee contributes 5 per cent. of his salary by deduction and the employer contributes a similar sum. Two policies are effected on the life of the employee for equal amounts, the employee retaining control over one and the employer a limited control over the other, the general idea being to secure the employee a pension at the age of 65, while the scheme goes on to provide for the usual foreseen contingencies, such as the employee leaving, dying, getting an increase in salary or wishing to take the pension at an earlier age.

No doubt other schemes have already been devised and many will appear in the future, but it needs no words of mine to recommend your serious consideration in this direction.

Something has been done towards the matter by the new Voluntary Contributory Pension Scheme of the Government, with which you are all probably well conversant. This, for the time being, has undoubtedly removed a certain amount of anxiety in the case of married members of staffs.

I have, as I said I would at the beginning of this paper, mentioned many points, all of them quite briefly, and I now look forward to hearing your interchange of views on at least some of them.

Discussion.

GROUP A.

Members of the group gave their experience or asked questions on the following points:—

1. Correspondence.

- (a) Practice as to showing the initials of principals or clerks on letters dictated.
- (b) Practice as to signing letters and the duplicates thereof.
- (c) As to whether clerks should be allowed to dictate letters.
- (d) Filing systems.

2. Audit note books and audit programmes.

3. Time records.

4. Amount of detail shown on accounts of professional charges sent to clients.

5. Keeping a register for the recording of clients' books as they were received into or despatched from an accountant's office.

6. Draft accounts. As to whether writing, typewriting or printing is most in vogue.

GROUP B.

The following points were mentioned among others:—

1. The difficulty of adjusting final account figures to the nearest pound. In some cases this results in more trouble than it is worth in adjusting the additions and cross additions.

2. It was suggested that changes of staff on audits should be more frequently made. This, it was said, was not always advisable, but it was always preferable to have at least two senior members of the staff familiar with one audit.

3. The suggestion was put forward very strenuously that members in practice should amalgamate their businesses wherever possible. This it was thought would strengthen the position of the Society and the profession generally.

4. One member said that he had arranged a pensions scheme for his staff, and that the scheme had had a very beneficial effect.

5. Methods of keeping records of time spent on jobs were discussed. It was suggested that where it was discovered that a job when costed up was showing a larger profit than was considered equitable some reduction in fee could be offered to the client.

GROUP C.

It was considered that a strong-room, or, alternatively, fireproof cabinets, was essential for the purpose of storing clients' books. Members thought it advisable to acknowledge the receipt of all clients' books in great detail as a safeguard against possible misunderstanding in the event of any books being lost or mislaid. If this procedure was carried out, it should be possible to fasten the responsibility for a lost book upon the negligent person. It was also advantageous to have a similar letter of acknowledgment from clients when their books were sent back to them.

It was the rule to keep records of the time spent on clients' work for the purpose of fixing fees and locating profitable and unprofitable work. The recording was usually done in diary form. One member suggested the keeping of time records on a double entry system.

Members thought that, although on the face of it the omission of the shillings and pence figures from published accounts appeared desirable, the time spent in obtaining accuracy was greater than that which would be spent in publishing the full set of figures. In the case of larger companies, and where the figures ran above the £100,000 mark, it was considered that the figures for shillings and pence might be left out. Where this was done, however, the difficulty of complying with the legal requirements of the Companies Act arose, since it was not clear how an unqualified certificate could be given under Sect. 134 when the figures shown in the accounts did not agree exactly with those shown in the books of the company.

It was considered desirable that there should be a systematised set of ticks for each clerk and for each process of the audit.

It was generally agreed that a record should be kept of all callers and telephone calls, giving particulars of the name, time called, and any other necessary particulars.

The necessity of being able to locate those members of the staff who were out on audit called for the keeping of a book signed by each member of the staff and stating where he was going, time of arrival and time of leaving.

Pension schemes were considered at great length, and, in view of the fact that they have been tried in practice with the larger firms and, in general, have not been successful, it was decided that it was better for the employees to make provision for themselves.

GROUP D.

Here again the discussion was of a general nature, although some difference of opinion was noted on the question whether accounts giving figures approximated to the nearest £ could be certified as correct.

The importance of time records and audit programmes was agreed.

GROUP E.

Correspondence.—It was recommended that a second carbon copy of all letters outwards should be made and filed in date order, irrespective of subject. The file should consist of a device which could be fastened so as to form a book when full (a biblio folder was suggested). The advantage of this would be that a principal returning to his office after a period could, by perusing the correspondence outward, quickly obtain a grasp of how business matters were progressing. It had also an advantage from an evidence point of view in case of litigation.

For following up, where necessary, a third copy could be made and filed in order of date in a "concertina" folder. An alternative method, namely, a large diary available to every member of the staff for entries of this kind, was suggested and strongly approved.

Audit Note Books.—The use to which an audit note

book should be put caused some difference of opinion. For very small cases the whole of the information might be contained in one book. In larger cases there should be a control note book in addition to the usual annual working one. The control book would set out particulars of leases, plant and machinery, requirements as regards reserves, &c., and would form a permanent record to be kept with the current working papers.

Audit Programmes.—It was felt that a programme was essential in large audits and desirable in smaller ones.

Programmes should be reviewed by the senior clerk and principal from time to time, so that the client's staff might not be able to anticipate what work would be done.

Transfer of Staff.—It was thought undesirable to leave the same clerk on the same audit for more than a few years. There was a risk of his becoming mechanical and less alert.

An interchange of staff between departments—i.e., audit, tax, insolvency, trust estates, &c., was strongly advocated.

GROUP F.

The question as to the best method to be adopted for the registration of deeds and other important papers held by accountants for clients was discussed, and it was decided that a neat cardex system, giving details of the information contained on the deeds or papers, was better than a deed register, as when the deeds were no longer in the hands of the accountant, the card concerned could be relegated to a dead card file.

Dealing with the question of time records of staff work, it was decided that in all cases it is advisable to keep these, even when the accountancy work is carried out for a fixed fee, because they afford the accountant valuable information, such as whether on the fees fixed he is working at a loss, and form a basis of cost for future work of a similar nature.

In this connection the usefulness to the principals of progress sheets was also mentioned.

The desirability of amalgamation of smaller firms of Incorporated Accountants into larger groups did not find much favour, it being held that the ideal firm for the best service to the public was a medium-sized firm of about two to four partners.

The value of indemnity policies was discussed, as also the form of insurance covering the expense of writing up books and accounts following destruction by fire.

As regards the point raised as to the time at which accounts for fees should be sent out, there was no general method, one fixing a day every quarter, others after the income tax computations had been settled, and others immediately after the completion of the audit.

The usefulness of a register of "books in" and "books out" was pointed out, and it was agreed to be a commendable procedure.

There was general agreement that a Pensions Scheme both for principals and staff was necessary.

GROUP G.

A South African member of the group mentioned that the writing of names on the windows of accountants' offices in his country had been stopped. It was questioned by the group whether this would not be advisable in this country. An interesting point was made in regard to the difficulty of a woman member's making contact with existing and possible clients; whereas men had the advantages of clubs, associations, &c., women had to rely almost entirely on personal recommendations.

The question of pension schemes in accountants' offices was discussed at much length.

While recognising that welfare, thrift and pension schemes may in certain circumstances tend to derive the individual of incentive, it was thought that pension schemes were advantageous.

GROUP H.

Discussion was particularly keen upon this paper, and amongst the points raised were clients' book records.

A loose leaf system for each client with a signed receipt for all books handed over, a card system and the use of letters confirming receipt and despatch of books were all mentioned.

Considerable discussion centred upon sectionalisation; the use of even pounds on financial statements; and amalgamations. The group decided that:

- (1) The time has arrived when it is considered desirable that shillings and pence should be omitted from all financial statements.
- (2) It would be in the best interests of the individual members of the Society, the Society itself, and of clients, that the fullest consideration should be given to the question of amalgamation between firms.
- (3) It was not desirable that staff work should be sectionalised with an idea of general efficiency, but where there was sectionalisation, juniors and articulated clerks should be transferred between the sections.
- (4) Suitable salaries were to be preferred to staff bonuses.

Changes and Removals.

Mr. Albert E. Chadwick, Incorporated Accountant, has retired from the firm of Messrs. William Chadwick and Sons, Incorporated Accountants, of 6, Hamnett Street, Hyde. The surviving partner, Mr. John E. Chadwick, Incorporated Accountant, has taken into partnership Mr. T. W. Greenwood, Incorporated Accountant, and Mr. A. Barber, Incorporated Accountant, who have been associated with the firm for many years.

The partnership under the style of Lawther, Bass and Co., between Mr. P. S. Bass, Incorporated Accountant, and Mr. F. D. Gray, Incorporated Accountant, has been dissolved. Mr. P. S. Bass has retired from the partnership and the practice will be continued by Mr. F. D. Gray, under the title of Lawther, Bass & Gray, at 35, Church Street, Coleraine.

Mr. C. P. McCarthy, M.Comm., Incorporated Accountant, 6, South Mall, Cork, announces that he has opened an office at 4, Commercial Buildings, Dame Street, Dublin.

Mr. Sidney Porter, Incorporated Accountant, of 8-10, County Chambers, Weston Road, Southend-on-Sea, and Mr. Ernest G. White, Incorporated Accountant, of 33, Victoria Avenue, Southend-on-Sea, have taken over the practice hitherto carried on by Mr. F. G. B. Owles, Incorporated Accountant, of 5, Nelson Street, Southend-on-Sea, and Upminster. The combined practice will be continued from 33, Victoria Avenue, Southend-on-Sea, under the firm name of Porter, White & Owles.

Mr. W. Anthony Rayner, Incorporated Accountant, has taken into partnership Mr. R. F. C. Baker, Incorporated Accountant. The style and address of the firm will continue to be W. A. Rayner & Co., 12-14, Arthur Street, London Bridge, E.C.4.

Mr. C. J. Ross Spencer, Incorporated Accountant, has commenced public practice at 201, Winchester House, Loveday and Main Streets, Johannesburg.

Messrs. W. E. Thorpe & Co. and Messrs. Thorpe and Kilner are removing to new offices at 45, Bedford Row, W.C.1. The two firms are now amalgamated under the style of Thorpe, Kilner & Co., Incorporated Accountants.

Messrs. Turquand, Youngs, McAuliffe & Co., of 19, Coleman Street, London, E.C., have admitted into partnership Mr. Harold L. Layton, A.C.A., Incorporated Accountant, and Mr. John B. P. Williamson, who have been in the service of the firm for many years.

The Conduct of Investigations.

A LECTURE delivered at the Incorporated Accountants' Course at Oxford on July 16, 1938, by

MR. W. G. LITHGOW, F.S.A.A.

1. INTRODUCTION.

(i) A fleeting retrospect of professional accountancy provides an impressive example of rapid development over ever-widening fields of labour. The practising accountant of to-day frequently finds that in addition to acting as accountant and auditor he is called upon to perform the functions of executor and trustee, liquidator, receiver in varying circumstances, trustee in bankruptcy and under deeds of arrangement, company director, company secretary, arbitrator. Much has been written on the exercise of these functions and the accountant has at least some guidance from statutory directions, legal dicta and from the tenets and customs of well-established practice. In the field of investigation, however, the *modus operandi* is less clearly defined and must of necessity vary with the diverse reasons which may prompt an inquiry and by the amount and nature of available data.

(ii) It is, perhaps, well that this should be so. Codes of procedure always have their limitations; they will never confine certain branches of accountancy within the boundaries of a programme and of no branch of the profession is this more true than in the case of the many and varied functions which are covered by the term "Investigation." In the words of a leading article in the *Accountant* (July 27th, 1929), it is to be hoped that attempts to formulate a code of technique will not give currency—

"to the idea that its possession is a substitute for a first hand study of the particular business under examination backed by the widest possible experience of the greatest possible variety of commercial operations; . . . the profession will fall short of that to which it might otherwise attain unless its practitioners are consulted not as possessors of a code but as men able to bring their personal wisdom to bear on unforeseen problems of practical life."

2. THE NATURE OF THE SUBJECT.

(i) An investigation may be described as an inquiry or examination for a special purpose. Generally an investigation will embrace many of the features of an audit, but in addition it will include matters which do not enter into audit procedure. In certain circumstances an investigation will commence with an audit of a most detailed and comprehensive nature, while in others it will only commence at the point at which an audit terminates.

(ii) The following is a list of specific types of investigation which may arise in practice, and although not completely comprehensive it will serve as a reminder of the scope of the subject:—

- (a) On the purchase of a business or the acquisition of a substantial interest therein.
- (b) On the admission of a partner.
- (c) On the granting of credit.
- (d) For a report on profits for prospectus purposes.
- (e) In cases of fraud and embezzlement.
- (f) By a trustee or liquidator in insolvency cases.
- (g) For the purpose of valuing the shares of a company.
- (h) On behalf of an insurance company in connection with fire and other insurance claims.
- (i) Under sects. 135 and 137 of the Companies Act, 1929, in connection with the appointment by the Board of Trade or by the company of Inspectors to investigate the affairs of the company.

- (j) On amalgamation and reconstruction of companies.
- (k) On the reorganisation of accounting systems or for the purpose of reporting on the efficiency of an internal audit system.
- (l) In cases where contracts are carried out on a cost plus profit basis.
- (m) On behalf of beneficiaries under a trust.
- (n) In connection with compensation claims.
- (o) On behalf of owners of royalties, copyrights, and patents under powers usually contained in agreements to lease or licence.
- (p) In income tax back duty cases.
- (q) On behalf of a shareholders' committee.
- (iii) It is interesting to note that the accountant has the statutory right to examine on oath in investigations under clauses (f) and (i).

3. SCOPE OF AN INVESTIGATION.

(i) This is influenced in most cases by the nature of the instructions: it is important that these should be in writing and be as explicit as possible. In particular the object of the investigation should be clearly understood, as this forms the chief guide to the accountant as to the course he should pursue. However detailed instructions may be, the extent of the investigation is generally a matter for the accountant to decide and on which he is expected to bring his expert knowledge and experience to bear. He should not, therefore, restrict his investigations to the limitations of his instructions where his special knowledge leads him to believe that the object of the investigation will not be fully served by so doing. Any major failure in this respect might, it is thought, involve the accountant in claims for negligence, particularly if his report contained no warning based on his expert knowledge. This point will be dealt with more fully in the consideration of general legal liability.

(ii) In order to circumscribe this wide subject it is proposed to deal in some detail with practical points arising in two classes of investigation which at one time or another must fall within the ambit of a practising accountant's duties.

4. PROPOSED PURCHASE OF AN UNDERTAKING OR INVESTMENT.

(i) This type of investigation is probably of the most frequent occurrence in the experience of practising accountants. Furthermore, it may be regarded as one of the most onerous in many cases for it is highly probable that the ultimate decision will be based very largely on the accountant's report. An attempt will be made, therefore, to indicate the general lines of procedure in an investigation in the case of a manufacturing company. With appropriate variations the suggested procedure may be adapted to meet other types of case and in any event must be regarded only as a guide. For reasons already stated, no attempt is made to compile a programme for general application.

(ii) The instructions may emanate from prospective purchasers of the undertaking, from clients contemplating a substantial investment therein, from a company considering amalgamation, or from a financial group proposing to sponsor a public issue. After due consideration of the precise circumstances, attention should be given to the nature of the particular business, and if the accountant possesses no special knowledge it is desirable that he should seek out general information before commencing his investigation. In many cases a perusal of trade journals and other specialised literature will provide an outline of the special features of the business and of any pending legislative measures. In these days when legislation regulates many trades and industries, it is often

important to peruse relevant official publications in the form of Government Reports, Bills or Statutes, obtainable from H.M. Stationery Office.

(iii) Where practicable the first step in the actual investigation will often be a tour of inspection of the company's premises. In manufacturing businesses particularly, the knowledge so gained will be of considerable assistance in the subsequent examination of the costing and financial records and in discussions with directors and officials. At this stage also a brief summary of the history of the undertaking may be prepared, and thus equipped, the accountant may proceed to the examination of past years' accounts. Where these accounts have been audited by a reputable firm and an unqualified certificate given, the investigating accountant will generally accept the accounts as the basis of his inquiries and devote himself to amplification and analysis rather than to audit. He will, of course, be guided by circumstances and it is desirable in most cases to arrange an interview with the company's auditors. Accounts for the past three or more years will be examined in detail for purpose of comparison set out in columnar form, and marked changes over the period will be the subject of special inquiry. Income tax computations may also be examined with advantage.

The books of account should next be perused in detail, for the purpose of obtaining information on the following matters :—

(iv) *Sales*.—An analysis of turnover as between various products should be prepared where possible. The geographical distribution of sales, with special reference to foreign trade, should be considered. The trend of sales requires special attention and particulars should be obtained as to alterations in prices during the period under review. It should be remembered that an increase in the cash value of sales may conceal an actual decline in volume of turnover, and the trend of sales should, therefore, be considered (a) in terms of cash, and (b) in terms of volume. The amount of returns should be considered particularly as to the proportion represented by rejected goods, while the treatment of goods on sale or return, on consignment, or in hands of agents, should be verified. The seasonal variations in turnover, spreading of orders, contracts and orders in hand, and the extent of repeat orders, are further matters which may be extracted from a careful examination of the records.

(v) *Purchases*.—Points calling for attention under this head are the sources of supply, fluctuations in prices, forward purchases, and the extent to which discounts have been taken. Variations in the rate of gross profit demand the fullest inquiry. It is of the utmost importance to deal with the elimination of exceptional profits arising in the period under review by reason of changes in prices of goods purchased or of speculative deals in commodities. The importance of a close examination of forward contracts was emphasised in the *Pepper Pool* case, and it is the investigating accountant's duty to report fully on abnormal commitments of this nature.

(vi) *Profit and Loss Account*.—A close scrutiny of the nominal accounts for the purpose of ascertaining the composition of each item in this account should be directed especially to the following points :—

- (a) Non-recurring items or such as would be varied or arise for the first time on the sale of the undertaking. These will be dealt with later in greater detail.
- (b) Variations disclosed by the uniform tabulated accounts. It is often desirable to calculate each item as a percentage on turnover, for while under normal circumstances an increase in turnover

would be expected to reduce the majority of such percentages, the reverse may apply in certain instances. This may indicate an inherent weakness in the business from the standpoint of future expansion. If, for example, the percentages relating to selling expenses are increased by expansion of turnover, it may be found that the law of diminishing returns has commenced to operate.

- (c) Apportionments, accrued expenses and payments in advance should be confirmed.
- (d) The amount of expenditure on advertising and variations therein are matters which may have a considerable bearing on the subject of the investigation. For example, a curtailment in expenditure during the last year may have inflated the net profit owing to the time-lag in the effect on sales. In such a case, future profits may suffer from the consequences of the policy.

(vii) *Net Profits*.—The trend of net profits may usefully be expressed not only as a percentage on turnover and on issued capital, but also on total capital employed, i.e. the aggregate of issued capital plus reserves and other undistributed profits.

(viii) *Balance Sheet*.—The examination of the accounts should proceed with a view to supplementing the balance sheet in the following respects :—

- (a) *Capital*.—The effect of any changes in the issued capital during the period should be noted. "Gearing" of capital is a matter of the utmost concern where the investigation is on behalf of a prospective purchaser of equity shares.
- (b) *Creditors*.—The nature of the creditors—the length of credit—the relationship between total creditors and the liquid assets of the company—hire purchase transactions—possible omission of liabilities—in particular Income Tax and N.D.C. or claims for surtax under Finance Acts, 1922, 1927 and 1936.
- (c) *Charges*.—Particulars of prior charges.
- (d) *Land and Buildings*.—Tenure—basis of book valuation—date of purchase—rate of depreciation—additions.
- (e) *Plant and Machinery*.—An examination of the Plant Register for information on the following matters : dates of purchase—rate of depreciation—treatment of alterations and additions.
- (f) *Stock*.—An examination of the detailed stock records and consideration of the following points :—
Basis of valuation—rate of turnover—treatment of obsolete stock—effect of fluctuations in value : basis of valuation of partly manufactured stock.
- (g) *Patents, Copyrights and Trade Marks*.—Valuation—life—possibility of supersession.
- (h) *Investments*.—Unpaid liability—marketability—basis of valuation—present value. In the case of investments in subsidiary companies an investigation of the accounts of each company is desirable, together with a searching inquiry into inter-company transactions and balances.

(i) *Debtors*.—Adequacy of reserves—length of credit—spreading of risk.

(ix) It will hardly be necessary to emphasise the importance of scrutinising and vouching all capital expenditure during the period under review. The possibilities of inflation of profits by unwarranted capitalisation of expenditure will be obvious.

(x) In considering the question of working capital it should be remembered that the position disclosed in the balance sheet may not be truly representative of the conditions prevailing during the greater part of the year

Seasonal fluctuations or "window-dressing" may conceal inadequacy of liquid resources, and it is frequently helpful to extract the weekly bank balances throughout the last financial year as some indication of varying requirements, or at least as possible ground for further inquiries.

(xi) A useful addition to the accountant's report is a well-arranged statement of net assets based on the last balance sheet.

(xii) Turning now from the accounts to matters of general information, the following points may well be brought within the scope of the investigation:—

Products.

- (a) The approximate distribution of turnover over the various types of product and the rates of profit on each type. In this connection an inspection of the costing system may furnish valuable information.
- (b) The introduction of new lines or the discontinuance of old ones during the period under review.
- (c) Competition—its extent and future possibilities, particularly as regards substitutes.
- (d) Seasonal variations in demand.
- (e) Effect of changing conditions on the demand for the company's products.
- (f) Effect of tariffs and possible changes therein.
- (g) The extent and efficiency of the sales organisation.
- (h) The effect of expiration of patents on future turnover.

(xiii) *Premises and Plant.*

- (a) The position and extent of the premises and the nature and lay-out of the plant and machinery should be considered from the point of view of future expansion and adaptation to other uses in the event of decline in demand for certain of the company's products. For example, standard machines will usually permit of changes in production, whereas specialised machinery may be very difficult to adapt. A further important point is whether the various sections of the works are planned for an even production.
- (b) Information should be obtained on the question as to whether all machinery is fully employed and the extent to which overtime is worked or whether shift systems are in operation.
- (c) It is desirable to ascertain the approximate maximum capacity of the buildings and plant.
- (d) The age and general condition of plant and machinery, the possibility of early renewal and the purchase of additional machinery should be noted.

(xiv) *Contingent Liabilities.*

Particulars should be obtained of liabilities in respect of contracts, guarantees and bills of exchange for which the company or any of its subsidiaries may be liable. In this connection, note should be taken of any obligations on the part of the company for servicing and maintenance in respect of past sales.

(xv) *Management and Staff.*

From his contacts with directors and officials and after inquiring into past service, the accountant will be able to form an opinion as to the ability of the management and the general efficiency of the undertaking. Inquiries should be made as to the terms of any service agreements in existence, and it is also advisable to ascertain the methods employed to ensure replacement of key men as and when necessary.

In connection with general employees, inquiries should be made as to the rates of remuneration, whether the labour is largely trade union, whether there is an adequate supply of suitable labour, the number employed in each department, and whether time or piece rates are adopted, with particulars of any bonus systems in force. Increases in

rates of wages during the period under review should be inquired into and their effect considered in relation to cost of production and past profits.

(xvi) *Inspection of Documents.*

Deeds of property and other documents of title, leases, service and hiring agreements should be perused for the purpose of drawing attention to special points in the report. The Memorandum and Articles should be considered and suggestions made for any necessary amendments.

(xvii) *Indemnities.*

The accountant should in appropriate cases recommend the procuration of indemnities from directors to cover such matters as undisclosed liabilities including income tax and surtax. In certain cases, too, guarantees in respect of book debts may be necessary.

5. ADJUSTMENT OF PROFITS.

(i) When reporting on past profits it is imperative to take into account known factors which will not remain constant under the change of ownership. A mere statement of profits earned in the past as shown by audited accounts may be extremely misleading in certain circumstances, and it is the duty of the investigating accountant in such cases to effect any necessary adjustments. Although the accountant is concerned only with reporting on past results, he should bear in mind that his client is chiefly concerned with forming an opinion on future profits.

(ii) Where the report is for prospectus purposes the position of the accountant is still more onerous, for he is reporting not merely to clients, but to the investing public. In this case his report must be clear and self-contained, since he has no opportunity of supplementing his findings by verbal explanations as in the case of an investigation for the private information of a client.

(iii) Furthermore, there is little in the form of statutory guidance. Clause 2 of Part II of the 4th Schedule, Companies Act, 1929, provides the only statutory reference (subject to minor qualifications in Clauses 5 and 6 of Part III of the same schedule) in the following brief terms:

"If the proceeds or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of any business, a report made by the accountants who shall be named in the prospectus upon the profits of the business in respect of each of the three financial years immediately preceding the issue of the prospectus."

Clause I of Part II of the same schedule is in similar terms, but relates to a report by the auditors on the company's own business, and is therefore outside the scope of the present subject.

(iv) The discretion shown by the legislature in refraining from any attempt to define profits is admirable. The restraint which permits the most important item in the prospectus to be dismissed in a few simple words is remarkable. When compared with the almost incomprehensible verbiage of a Finance Act, such economy in language requires some explanation, and this is to be found in the confidence reposed in the accountancy profession to adopt the best practice in computing profits. Even so, it may be necessary in future legislation to provide some guidance to a profession which cannot claim to have achieved uniformity.

(v) The nature of the adjustments naturally varies according to circumstances, and the matter is one for the judgment of the accountant. The following are a few of the more general adjustments found to be necessary:—
Deductions to be made from Profits.

- (a) Profits of an exceptional and non-recurring nature, including capital profits.

- (b) Rent of premises owned by the vendor, but not included in the sale to the purchaser. In this case the figure for future rent will usually have been agreed.
- (c) A proper charge for services rendered to the business by the vendors or others where no charge has been made in the accounts or where the charge has been inadequate.
- (d) Any items of income which will definitely not accrue to the purchaser by reason of the changed conditions or by the fact that only a portion of the business is being purchased.

Additions to be made to Profits.

- (a) Bank interest and interest on loans where these items will not arise subsequent to the sale of the business.
- (b) Losses of an exceptional and non-recurring nature, including capital losses.
- (c) Capital expenditure which may have been charged to revenue.
- (d) The amount of rent charged in the accounts where this will no longer be payable, i.e., where the purchaser is acquiring the premises.
- (vi) Depreciation frequently requires adjustment owing to the fact that the value at which assets are purchased will probably not correspond with the book values, and consequently it is necessary to make provision for depreciation at the appropriate rates on the price at which the assets are being taken over.
- (vii) Where there is doubt as to the correct charge for depreciation or any other items of expenditure it is usually desirable for the profits to be stated before charging such items, and for this fact to be made clear in the report.
- (viii) Briefly, the accountant must be guided by two main considerations in adjusting profits:—
 - (a) To make the statement of past profits as reliable a guide as possible to those who, on the basis of such profits, desire to form their own opinion as to the future.
 - (b) To aim at the utmost clarity in specifying in the report all important adjustments made.

It is proposed to consider next a second type of inquiry which often falls within the duties of an accountant, namely, investigation in connection with fraud and embezzlement.

6. FRAUD AND EMBEZZLEMENT.

(i) Amongst the dicta in the case of *City Equitable Fire Insurance Company Limited*, we find the comforting words, "the duty of an auditor is verification and not detection." There may be some doubt as to the extent to which this dicta can be relied on by an auditor but there can be little doubt that it would not apply in the case of the accountant engaged in an investigation for fraud or embezzlement. Whether he commences with the certain knowledge that irregularities have occurred or whether the investigation is merely prompted by suspicion, detection is most definitely the duty of the accountant in these cases, and the scope of his inquiry and the methods he employs must go far beyond the limits of normal audit procedure.

(ii) Fraud and embezzlement perpetrated by crude methods would normally be discovered in the course of an efficient audit but more ingenious methods may evade discovery for long periods. Cleverly conceived schemes are usually based on a fairly sound knowledge of accounts and audit procedure and for this reason it is impossible, and indeed undesirable to attempt to suggest general lines on which an investigation should proceed. The plan of action must be evolved out of the circumstances

and be developed by intelligent reasoning and acumen. It is often necessary to adopt methods which are not merely unorthodox but which may possibly be unique. Subsequent remarks on this subject are therefore merely random thoughts on practical points.

(iii) Where practicable it is desirable to commence with a spot check of cash and securities and to obtain bankers' certificates as to balances. If these matters are not dealt with simultaneously, or if they are delayed till a later stage, when all parties concerned are aware of the proceedings, manipulation may render discovery more difficult. Having taken this preliminary step, it is desirable to consider the entire system. The division of duties and the extent of any internal checks in operation must be investigated and an opinion formed as to the weaknesses which may have facilitated irregularities.

(iv) In considering personnel, the accountant must become an incredulous being. It has frequently been said that old and trusted servants should not receive any measure of immunity from the searching inquiries and investigations of the accountant, and unfortunately there is good ground for this statement. Excessive reliance upon trusted servants all too frequently provides the very means and opportunity of fraud and embezzlement to which they succumb. The accountant must be alive to these possibilities and mingle tact with tenacity in meeting the objections of directors and employers who regard as preposterous inquiries into the activities of trusted employees. While on the subject of personnel, discreet inquiries as to the private pursuits and standard of living of employees have on many occasions enabled the accountant to concentrate on fruitful ground at an early stage of the investigation.

(v) Verification of debtors' and creditors' balances by direct communication with the firms concerned where practicable is a very desirable course. In the case of large accounts a detailed comparison of each item with the books of the debtor or creditor may be resorted to. These methods have brought to light frauds which defied detection from a mere examination of the books and vouchers, although they might not have been effective in certain recorded cases of collusion between an employee and a creditor or debtor.

(vi) Amounts written off as irrecoverable or by way of allowance form a convenient method of concealing misappropriation of both cash and goods and should be subjected to the closest scrutiny.

(vii) The temporary pledging of assets for the purpose of adjusting discrepancies during the progress of an investigation or audit has been adopted in certain cases, and the possibilities of this operation should be kept in mind.

(viii) Modern business methods have in certain cases added new problems for accountants, and amongst them the system of requiring receipts solely in the form of endorsements on cheques rather impairs the old precautions relating to receipt books and control over unissued books. This point emphasises the importance of a careful examination of the "make-up" of bankings, more particularly for the period immediately before and after the end of a financial year.

(ix) In certain cases it is advisable for the accountant to open all letters received during the period of the investigation. In connection with outgoing correspondence undue reliance should not be placed on office copies as under all systems it is possible for copies to differ from originals. Where important transactions are conducted by correspondence the borrowing of original letters for comparison with copies has in some instances been very illuminating.

(x) A company minute book does not necessarily con-

tain true minutes in spite of the fact that it may be signed by the chairman. Where a secretary reads minutes for confirmation, and the record is not scrutinised by a chairman, the omission to read one or two minutes may be undetected.

(xi) In manufacturing businesses sales of scrap and by-products have been known to provide a lucrative though unauthorised perquisite for unscrupulous officials or directors, while the sale of goods at low prices in return for suitable consideration has been resorted to in many instances.

(xii) The use of secret reserves for the purpose of concealing defalcations may be very difficult to detect, but where the accountant ascertains that such reserves exist he should be alive to their potentialities in this connection.

(xiii) In leaving this subject the following points are submitted :—

1. Superficial checking is of little value. Inquiries must penetrate below the surface.
2. Goods demand the same attention as cash.
3. The most minute detail if pursued may prove to be the most important.
4. Incomplete or missing records often appear to present an insuperable difficulty but they can frequently be completed or re-compiled if every possible source of information is explored.

7. LEGAL LIABILITY.

(i) Although cases dealing with alleged negligence of auditors are numerous and well known, there is an absence of clear authority governing the extent of an investigating accountant's liability. It is true, of course, that in whatever professional capacity a practising accountant is employed, whether as auditor or as investigator, the common law doctrine of negligence applies. If, when professionally engaged, an accountant fails to exercise that degree of skill which is demanded of a trained practitioner, he incurs liability; but it is impossible to lay down hard and fast rules as to the application and limitation of this doctrine. Circumstances will usually differ according to the instructions and according to the extent of the duties which the accountant contracts to perform.

(ii) The following dicta of Duke (L.J.) in *Fletcher & Son v. Jubb, Booth & Helliwell* (1920), 1 K.B. 275, is of interest. "Professional men possessed of a reasonable portion of information and skill according to the duties they undertake to perform, and exercising what they so possess with reasonable care and diligence in the affairs of their employers certainly ought not to be held liable for errors of judgment whether in matters of law or discretion."

(iii) In the cases of *Squire v. Ball, Baker & Co.*, and *Mead v. Same* (K.B. 1911), the defendants were accountants who had been employed to investigate the books relating to a business and who had made a report to the plaintiff on the strength of which he had invested in the business. It was suggested for the plaintiffs that where auditors are advising a company and are invited to rely upon the statements of the manager or secretary, they are relying upon statements of persons employed by the company to which they are reporting, and who are presumably trusted, but that in the case where accountants are called in to advise a person who intends to put money into a business or purchase a business, the persons carrying on the business are not his servants trusted by him but are persons in respect of whose conduct he has to be guarded by the advice he is seeking. On that proposition, Sir Edward Clark argued that accountants acting as investigators owe a higher duty than accountants acting purely as auditors. This argument was not accepted by Lord Alverstone who tried the case. He said, "this case

raises in a distinct way the question of what is the obligation of accountants who are instructed to advise either an individual or company with reference to the condition of business of a going concern. It is suggested by Sir Edward Clark that a higher standard of duty is required from the defendants. I myself have not been able to recognise that distinction. I put the duty of the accountants in both cases on the same standard. I do not agree that their duty as auditors would be less than their duty in advising a purchaser who was buying a business." The case of *Colmer v. Merrett, Son & Street* (K.B. 1914), was also an action against the investigating accountant. In the course of the judgment in this case it was pointed out that however careless the accountants might be, they owe a duty only to their client, and that the burden of proving that the work had been done negligently was upon him.

(iv) In the case of investigations for fraud, however, the degree of care expected is of a higher order. In the recent case of *Pendlebury v. Ellis Green*, the duty of an accountant investigating in a case of fraud was described by Swift (J.), when he referred to an accountant who was called in "to be a detective and to approach the work with suspicion or with a foregone conclusion that there is something wrong." The Judge was illustrating the converse of the duty of an accountant acting only as an auditor which was summarised by Lopes (J.) in the well-known *Kingston Cotton Mills* case. In investigations of this character, the accountant is brought in where there is suspicion from the outset of his task and he can take nothing for granted. He must apply every reasonable test which he can devise, although he does not become an insurer, and his failure to detect fraud will not render him liable unless his client can show that it was through his neglect or his unskilful conduct of the investigation that the fraud was undetected.

(v) A matter which must exercise the minds of accountants engaged in investigations is the extent to which an investigator may express his opinion as distinct from matters of fact. In many cases there appears to be no reason why a client should not receive the benefit of the accountant's opinion on matters which have come to his knowledge during the course of the investigation. There is no doubt that many clients will expect the help of such opinions and it would be unreasonable to refuse them. The investigating accountant should remember, however, that his opinion is likely to be acted upon and should be given only on being reasonably satisfied as to the matters which he has investigated and on which he ventures an opinion. It should be emphasised that in making his report the accountant must separate clearly opinions from ascertained facts, and it is a matter for judgment as to the extent to which personal opinions are warranted and as to the circumstances in which they must be guarded or completely withheld.

(vi) A further point which may arise in the preparation of reports is the question as to whether a report which reflects unfavourably upon persons concerned in the business would expose the accountant to any risk of an action for defamation. It is clear from the authorities that such reports enjoy qualified privilege. They are necessarily confidential, and in the case of *Watt v. Longden*, 1930 (K.B. 130), it was stated "a communication made *bona fide* upon any subject-matter in which the party communicating has an interest, or in reference to which he has a duty, is privileged if made to a person having a corresponding interest or duty, although it contain crimimatory matter which without this privilege would be slanderous and actionable."

(vii) It will be appreciated that many of the remarks

concerning the legal liability of accountants engaged in investigations apply to cases in which the accountants are reporting only to the clients who instruct them.

(viii) In the case of investigations for prospectus purposes (under section 35 of the Companies Act, 1929, and Part 2 of the 4th Schedule of the Act) the responsibility is more onerous, and in those cases the accountant concerned may of course incur liability to members of the public who have subscribed for shares. In such cases accountants are required to report in concise form on past profits and, having regard to the nature of their responsibility, they will confine themselves to their statutory duty.

7. FUTURE DEVELOPMENTS.

The subject was introduced by a brief reference to the growth of the profession. It seems appropriate to conclude by a contemplation of the future with particular reference to the most general type of investigation, namely, in relation to investment of capital in one form or another.

The major limitation of the usual accountants' report in this connection is that from its very nature it cannot deal adequately with many vital matters. Thus, technical efficiency, potential markets and the general economic outlook for the industry concerned are all questions upon which few accountants are qualified to speak with authority.

The present practice is to incorporate in the report guarded references to these topics, because the accountant rightly feels that they are essential elements of the business on which he is reporting.

It is suggested that the way of progress may lie in the co-operation of groups of expert technicians and economists working with the investigating accountant who would act as co-ordinator and rapporteur. Thus the accountant would be assisted in his investigation by adequate technical and economic knowledge of the special problems of the business under review, while his report would be accompanied by appendices dealing authoritatively and independently with technical matters.

Accountancy has not reached its zenith in service to the community; the increasing complexity of commerce and industry will continue to present new problems and afford opportunities hitherto unknown. Thus the future of the profession will depend very largely on the ability of accountants to adjust and adapt their services to meet the transitory requirements of a rapidly changing world.

Discussion.

GROUP A.

Members pointed out certain additional safeguards which they considered necessary when carrying out investigations, viz. :—

- (a) A questionnaire to the auditor as to the extent of his audit.
- (b) A separate inquiry into the efficiency of the costing system of a manufacturing concern.
- (c) A separate report by a technical expert as to the general lay-out and organisation of the factory, including whether the quantities of goods which appeared in the stock sheet could be generally confirmed from physical observation.

A member asked for advice on the basis to be adopted in valuing the ordinary shares of a private limited company for the purpose of fixing the price at which the directors might purchase them under the terms of an option contained in the Articles of Association. This matter was discussed at some length, but there was considerable diversity of opinion as to the amount to be included in the valuation for goodwill. It was agreed that where an auditor has to make an annual valuation he should be careful to set out in his own records the method adopted so that this could be communicated to subsequent auditors.

GROUP B.

The following points were mentioned here :—

1. It was the experience of the group that the point and reason of every investigation should always be prominently kept in mind.
2. Investigations in respect of fraud should rarely occur if the system which is in operation is properly worked by the staff of the company.
3. The lecturer suggested that it might be useful to express the figure of net profits as a percentage on the total *capital* employed in the business. One member suggested that a better test would be to express the figure of net profit as a percentage on the total gross *assets* of the business.
4. One member stated that he had had experience in asking the advice of an economic expert in the matter of the purchase of a business. He made an investigation of the books and records of a business, found the result to be satisfactory, and was on the point of making a favourable report. The expert's report upset calculations, however, and an adverse report was sent to the client. The business failed three years after!
5. It was suggested that the investigating accountant should keep the important books and records which he is investigating under lock and key.

GROUP C.

Points arising out of the discussion were :—

- (a) Accountants were being called upon to investigate claims for loss of profits due to the incapacity of the proprietor.
- (b) There was a certain difference of opinion on the duty of accountants in investigations in regard to the future possibilities of the business. It was generally agreed that the accountant should not confine himself only to figures, but should nevertheless be very careful to avoid any wording which might lead his client to regard his remarks as a prediction or estimate for the future. The report should be set out in sufficient detail to enable the client to understand the exact position of the undertaking.
- (c) The duty of an accountant investigating the profits of a company for prospectus purposes under Sect. 2, part 2, of the 4th Schedule of the Companies Act, 1929, was discussed, and it was pointed out that the accountant bears no small responsibility, since, on the strength of his certificate as an expert, the public would be asked to subscribe for shares in the company. The accountant's duty in this direction is important from his personal point of view, since, in the event of a new company proving unsuccessful and legal proceedings being taken, he is likely to find himself involved.
- (d) Finally, in the wording of a certificate of profits, the precise periods covered by the investigation should be set out.

GROUP D.

The value of inspecting income tax computations in prospectus investigations was discussed, and examples from experience given.

Consideration was also given to the reserves for unearned profit in businesses with a large proportion of hire-purchase transactions.

GROUP E.

The value of a close examination of the company's file at Bush House was emphasised. Much information could be gained as to the history of a private company by noting the name of the solicitor making the declaration of compliance and other similar detail.

It was suggested that the best method of commencing an investigation was to extract a trial balance and prepare accounts before doing any checking. There might be a substantial difference in balancing, but the result usually produced a bird's-eye view of the business, and often provided a clue to the weak points, which could then receive

concentrated attention, the difference in balancing being always borne in mind.

The phrase "after making such adjustments as in our opinion are necessary" was discussed at some length and condemned.

The question of how far an investigating accountant ought to accept another accountant's work was discussed. An instance was given of a young qualified accountant certifying a balance sheet which (without being negligent) he was misled into believing to be correct. An investigating accountant (advising a client on the purchase of the same business) who accepted the auditor's certificate at its face value was sued for negligence. The case was settled out of Court.

GROUP F.

The position of the accountant who is asked by his client to report whether or not a certain business should be purchased was discussed at some length.

It was eventually decided that the accountant in his written report should confine himself entirely to facts, and should point out any weaknesses he notices in the audited accounts of the business presented to him.

To an individual client he might amplify his written report with conversation on the trend of the profits of the business and any matters in connection with the existing management which he feels might be of use to his client.

Stress was laid upon the necessity of close investigation into quantities and volume of turnover as distinct from monetary values.

The discovery of bank accounts was debated at length, and it was generally agreed that as the Inland Revenue had no power to circularise branches or obtain information in like manner, reliance must be put upon the client after he has been carefully warned of the consequences of any concealment under this heading.

GROUP G.

There was some difference of opinion on the question how far, if at all, a report should exceed the accountant's instructions. The majority considered that in addition to stating the facts the accountant was expected to express his own opinions, but these should not be technical opinions, and they should be clearly set out so as to leave no doubt that they were his opinions.

Several experiences of errors found in audited accounts submitted at an investigation were mentioned. However, it was felt that provided the accounts had been audited by a reputable firm and a "clean" certificate given they could be accepted, but it was probably advisable, if possible, to discuss the accounts with the auditor.

Regarding investigations of fraud it was pointed out that if cheques which had to be receipted on the back were received by the concern under investigation, the possibility of the official receipt and its counterfoil being used for different amounts received should not be overlooked.

GROUP H.

There was a discussion on the depreciation of plant and the amount of working capital required for a new business, and the importance of obtaining income tax assessments and receipts. One member suggested that the point made by the lecturer regarding legislation relative to the business under investigation was important and discussed the use of trade journals and full explanations in subsequent reports. Discussion upon various types of investigation for fraud elicited the fact that the practice of auditors in the examination of paying-in books varied. Members were of the opinion that the ascertainment of working capital when investigating for acquisition should include full consideration of the position of depreciation reserves where replacements of fixed and usable assets had not occurred for some time. All members were of the opinion that it was essential to go behind the books and accounts, and that investigation instructions should be clearly set out in writing. It was generally agreed that the report upon an investigation should not necessarily be restricted to facts, but with proper care and in suitable

instances opinions should be given. Clients expect a lead, and it emphasises the fact that the profession is capable of giving useful advice.

Members gave various experiences of investigation, and emphasised the need for indemnities from directors retiring from the board of a business being sold. Discussion took place upon verification of consignments abroad, differences in exchange and investigations in connection with back duty cases.

Reviews.

Organisation of an Accountant's Office. By Charles M. Dolby, Incorporated Accountant. London: Sir Isaac Pitman & Sons. (112 pp. Price 6s. net.)

Experience may be a good school, but it is also a hard one. The young accountant beginning in practice may by dint of trial and error learn the principles governing proper office organisation, but he would find it better to read this book. Mr. Dolby has set out in the plainest English the essentials for a well-run accountant's office. He takes the reader hand-in-hand through the difficulties of office routine, equipment, and records, but he does not neglect the higher aspects of organisation. On these he has some pregnant contributions to make. Even the novice into public practice, says the author, should carefully consider the lines upon which his practice is to be allowed to develop. "There must be a limit to the extent of a one-man practice. . . . It is wise, therefore, to train one's clerks just in the way you would want them to go if they were your own partners." This little book is a valuable *vade mecum* to all who have, or hope to have, a practice and an office in their own control.

The Motor Industry of Great Britain, 1938. Issued by The Statistical Department, Society of Motor Manufacturers and Traders, Ltd., Hobart House, Milton Street, London, S.W.1. Price 5s. net.

This is a most comprehensive handbook of statistics relating to the motor industry. The accountant who ever has need to obtain statistics on motor taxation, road maintenance, production, external trade in motors, registrations or other matters connected with the industry will have to turn to this book. The book produces a recurrent impression of the extraordinary progress which the motor industry has made in recent years, a wealth of statistics illustrating this progress from all aspects.

Guide to Current Official Statistics of the United Kingdom. (Volume 167—1937.) London: H.M. Stationery Office. Price 1s. net.

Here are more than 400 pages indexing in convenient form the published statistical records of the Government Departments. Official statistics cover a far wider range than is generally appreciated, and the first source of reference if statistics have to be found should be this guide.

The Secretarial Handbook. (Fourth Edition.) By E. Westby-Nunn, B.A., LL.B. London: The Solicitors' Law Stationery Society, Ltd. Price 7s. 6d. net.

The fourth edition of this well known manual is revised and brought up-to-date.

Mr. J. F. Bodinnar, J.P., A.S.A.A., has been nominated by the Bacon Marketing Board to be a member of the new Bacon Development Board, set up under the Bacon Industry Act, 1938. Mr. Bodinnar obtained Honours in the Final examination of the Society of Incorporated Accountants in 1912.

Society of Incorporated Accountants and Auditors.

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The following promotions in and additions to the membership of the Society have been completed since our last issue :—

ASSOCIATES TO FELLOWS.

KARAMELLI, WILLIAM LEWIN, Principal Accountant, Professional Accountancy Division, Admiralty, Whitehall, London, S.W.1.

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- RYAN, RALPH CHARLES BENJAMIN FENCHAM, with Whiteley Brothers, Annan House, 86, Commissioner Street, Johannesburg.
- SANDERS, HAROLD SEYMOUR, with Larking, Larking and Whiting, Bridge Buildings, Wisbech.
- SCAMBLER, LESLIE VICTOR, with Harper & Broom, 3-4, Clement's Inn, London, W.C.2.
- SCOTT, JOHN GALLOWAY, with H. J. Davidson & Co., Mynshulls House, 14, Cateaton Street, Manchester.
- SHOESMITH, FREDERICK WILLIAM, Comptroller's Department, Metropolitan Water Board, 173, Rosebery Avenue, London, E.C.1.
- SIMPSON, GEORGE, Borough Treasurer's Department, Town Hall, Halifax.
- SMITH, MURRAY WHITEHEAD, with Wheatley, Pearce and Co., 102, High Street, Poole, Dorset.
- SMITH, WARREN SHOPLAND, with B. de V. Harcastle, Burton & Co., Coventry House, South Place, London, E.C.2.
- SPENCER, BASIL GEORGE, Finance Department, Surrey County Council, County Hall, Kingston-upon-Thames.
- SPITTLE, KENNETH GEORGE, with J. Durie Kerr, Watson and Co., 5, Waterloo Street, Birmingham.
- STANBURY, ALFRED WILLIAM BASIL, with Townsend, Watson & Stone, 4, The Broadway, Crouch End, London, N.8.
- STEELE, WILLIAM NOBLE, with Peat, Marwick, Mitchell and Co., Guildhall, Newcastle-upon-Tyne.
- STITT, JOHN ANDERSON, formerly with E. J. Williams & Co., 14 Lowther Street, Carlisle.
- STONEHAM, FREDERICK CHARLES, with C. N. Walter, Lester & Co., 290, Finsbury Pavement House, London, E.C.2.
- SWALES, LEONARD BUTTERWORTH, with Blakemore Elgar & Co., 9, King's Bench Walk, Temple, London, E.C.4.
- TATE, LAURENCE FRANCIS, with Slater, Chapman & Co., Viaduct, Chambers, 38, Holborn Viaduct, London, E.C.1.
- THOMPSON, HENRY CLAYTON, City Treasurer's Office, Town Hall, Newcastle-upon-Tyne.
- TIMINGS, JOHN HAROLD, with Carter & Co., Lancaster House, 67, Newhall Street, Birmingham, 3.
- TINKER, WALTER WILLIAM JOSEPH, with Pridie, Brewster and Gold, 8, London Wall Avenue, 32, London Wall, London, E.C.2.
- TONGUE, FRANK VALENTINE, with Hubbard, Durose and Pain, 9, Low Pavement, Nottingham.
- TODD, FREDERICK WILLIAM, with Tribe, Clarke, Painter, Darton & Co., 43-44, Broad Street Avenue, Blomfield Street, London, E.C.2.
- TRUESDALE, WILLIAM KEENE, City Treasurer's Department, Civic Hall, Leeds.
- TURNBULL, JOHN HART, (Percy Pemberton & Co.), 32 and 34, Cookridge Street, Leeds, Practising Accountant.
- WARD, ALEXANDER BRADFORD, formerly with Henry Chapman, Son & Co., Barrington Street, South Shields.
- WATKINS, IEUAN ILLTYD, formerly with Alban & Lamb, 12 Pembroke Terrace, Cardiff.
- WEBB, EDWARD DAVID, with F. L. Thomerson, 7, Old Steyn, Brighton.
- WHITE, CHARLES ERIC, with Appleby & Wood, Deansgate Arcade, Manchester.
- WINFIELD, LEONARD GRAHAM, with Ransom, Harrison and Lewis, 11, York Street, Sheffield.
- WRIGHT, RONALD GEORGE, with Johnstone, Moulder and Co., 13, Church Street, Kidderminster.
- YENDELL, ALFRED TOM, H.M. Inspector of Taxes, Warrington Second District, 55, Wilson Patten Street, Warrington.

District Societies of Incorporated Accountants.

BENGAL.

Annual Report.

The Committee have pleasure in presenting to the members their report on the activities of the Society for the year ended March 31st, 1938.

MEMBERSHIP.

Two members and one student member were added to the list of members during the year. Recently an invitation was issued to all Incorporated Accountants who have not joined the Society requesting them to do so, and the Committee are glad to report that the assurances received are satisfactory. The Committee feel that the interests of Incorporated Accountants on this side of India can be effectively safeguarded only by combination.

SOCIAL EVENT.

The Honorary Secretary entertained the members at a luncheon party at the Calcutta Club. Mr. N. Sarkar was entertained on his temporary elevation to the post of Chief Accountant, Calcutta Corporation.

STUDENTS' SECTION.

The Committee urge students and their principals to take more interest in the Students' Section. Owing to the smallness of the number of articled clerks, this section has not been as active as it should be. The Committee would gladly consider any suggestions that the members and the students may make for its improvement.

LIBRARY.

It is proposed to make substantial additions to the Library, and suggestions are invited from the members and the students in this connection.

BOMBAY DISTRICT SOCIETY.

Close co-operation was maintained with the sister institution on all matters of interest to Incorporated Accountants in India. The Honorary Secretary availed himself of an opportunity of meeting the Honorary Secretary of the Bombay Society in Bombay, and of discussing with him several matters of interest to both Societies.

INCOME TAX.

The Committee met the Member, Central Board of Revenue, Government of India, and discussed various matters of interest to the profession in relation to income tax. The Committee submitted a memorandum on the Income Tax Enquiry Report, 1936, and as requested by the Central Government, are now engaged in preparing a note on the Income Tax Amendment Bill, 1938. The Committee were in close touch with the Commissioner of Income Tax, Bengal.

STANDING COMMITTEES.

The Standing Committees have proved useful, and several references were considered during the year. Members are invited to consult these Committees whenever they desire.

GOVERNMENT RECOGNITION.

The Government of Bengal have put the name of this Society on the list of recognised associations interested in finance, commerce, and industry of the Province.

MINIMUM SCALE OF FEES.

The Central Government appointed a Special Committee to consider the question of prescribing a minimum scale of fees for professional work. The Honorary Secretary of this Society, who was a member of this Committee, acquainted the Committee with the views of the Incorporated Accountants in India. The decision of the Government is awaited.

INDIAN ACCOUNTANCY BOARD.

The term of the Indian Accountancy Board was extended by one year, and the Honorary Secretary of this Society, who is a member of the Board, continues to look after the interests of the Incorporated Accountants of Bengal. The Central Government have decided to adopt the elective principle in the appointment of the Board in future, and have invited the views of this Society. The Committee have supported the view of the Central Government, and the members are being consulted at an extraordinary general meeting.

OBITUARY.

The Committee regret to state that the Society sustained an irreparable loss in the death of Mr. K. J. Purohit, one of its former Presidents.

COMMITTEE.

Under Rule 5, Mr. M. D. Darbari, Mr. N. F. Master, and Mr. H. C. Das retire by rotation, but are eligible for re-election. The vacancy caused by the death of Mr. K. J. Purohit is also to be filled. Proposals have been received nominating Mr. N. C. Chakravarti, Mr. S. K. Sen, Mr. P. K. Mitra, and Mr. S. K. Kar for election.

CUMBERLAND AND WESTMORLAND.

Mr. Frederick Griffith, Kendal, has been elected President of the Incorporated Accountants' District Society of Cumberland and Westmorland.

LEICESTER.

Annual Report.

The Committee have pleasure in presenting to the members the following report on the work of the Society for the year ended March 31st, 1938.

LECTURES.

The following lectures were given during the session :
 "National Defence Contribution," by Mr. V. H. M. Bayley, F.C.A., F.S.A.A.
 "Public Issues of Capital," by Mr. W. J. Back, A.S.A.A.
 "Residuary Accounts," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.
 "Preparation of Monthly Accounts," by Mr. W. F. Edwards, A.S.A.A.
 "The Conversion of a Business into a Private Limited Company," by Mr. W. W. Bigg, F.C.A., F.S.A.A.
 "Deeds of Arrangement," by Mr. S. Shaw, LL.B., Barrister-at-Law.
 "The Law of Trustees," by Mr. A. E. Langton, LL.B., A.C.A., A.S.A.A.
 "Income Tax Losses and Rule 21 Assessments," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

Mr. Bigg and Mr. Langton also gave their lectures in Northampton.

In addition, the following lectures were held in Northampton :

"Current Practice in Company Auditing," by Mr. W. J. Back, A.S.A.A.
 "Deeds of Arrangement," by Mr. E. Westby-Nunn, B.A., LL.B.,
 "Building Societies," by Mr. D. H. Jelley, F.S.A.A.
 "National Defence Contribution," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

The attendances at lectures in Leicester fluctuated from 62 to 16, and averaged 28, and in Northampton averaged 11.

MEMBERSHIP.

At the close of the session there were 153 members and 93 students.

STUDENTS' SECTION.

The Committee were again disappointed by the attendance of members at lectures, and decided that a meeting

of students should be called in order to ascertain the reasons for absence from lectures, and in what way interest in these meetings could be stimulated.

Resolutions were passed recommending the formation of a Students' Section to the District Society. At a later meeting, proposals were made for the winter programme.

Fuller details will be issued at a later date, and all members are asked to give their full support to the Students' Section.

The Committee will welcome at all times suggestions from members regarding the work of the Society, particularly as regards suitable subjects for lectures.

EXAMINATIONS.

The Committee extend their congratulations to the students who were successful in the Society's examinations held in May and November, 1937. Nine passed the Final examination and twelve the Intermediate.

LIBRARY.

A list of the books in the Library will be forwarded to any member making application to the Librarian. The Library is at Allen House, Newarke Street, Leicester, and in Northampton at Drury Chambers, Market Square. Members living at a distance may obtain books by post by arrangement with the Librarian.

PARENT SOCIETY.

Close contact is maintained with the Council of the Parent Society on matters of interest to the profession. The Secretary attended a Conference of Representatives of District Societies held at Incorporated Accountants' Hall in May, 1937, at which many matters affecting provincial members were discussed.

APPOINTMENTS.

Students or members of the Society who desire employment should communicate with the Secretary, who receives regularly notifications of vacancies and appointments available to members of the profession. During the past year several members have successfully availed themselves of this service.

Members in practice having vacancies on their staffs will greatly assist by communicating with the Secretary.

DINNER.

On February 18th, 1938, the Society held a dinner in the Guildhall, Northampton. The President was supported by the President of the Parent Society and a number of distinguished guests. The dinner proved one of the most successful events in the history of the Society, due largely to the wholehearted support of the members both from Leicester and from Northamptonshire.

ACCOUNTING RESEARCH.

During the past year the Research Committee set up by the Council of the Parent Society has invited the co-operation of District Society Committees.

The results of the work done up to the present date have been published from time to time in the *Incorporated Accountants' Journal*, and will be familiar to members.

Mr. Bertram Nelson, F.S.A.A., of Liverpool, a member of the Council, whose interest in research is well known, kindly came to Leicester on November 30th, 1937, and explained more fully the scope of the research being undertaken. It was felt that this District Society could best assist by the submission of a standard form of accounts applicable to the staple industries of the district, more particularly the hosiery and the boot and shoe industries.

The matter has been placed in the hands of a Sub-Committee, whose recommendations, when available, will be placed before the Research Committee of the Parent Society.

The Committee would welcome a more active interest

on the part of all members in the welfare of the District Society. Any suggestion affecting the Society's work, whereby the position of the Society may be advanced, will receive consideration.

NEWCASTLE-UPON-TYNE.

Annual Report.

The Committee have pleasure in presenting their report for the year ended March 31st, 1938, and desire to place on record a very cordial expression of thanks to the gentlemen who have lectured during the past session.

MEMBERSHIP.

The membership at March 31st, 1938, was 40 Fellows, 163 Associates, and 226 Students, a total of 429, as compared with 416 at March 31st, 1937.

OBITUARY.

The Committee regret to report the death of Mr. John Grimes, who had been a member of the Society since 1893.

LECTURES.

The following lectures and meetings were held :

At Newcastle-upon-Tyne :

"Sur-Tax in Relation to Limited Companies," by Mr. T.

Fairbairn Short, A.C.A.

"Mercantile Law Problems," by Mr. E. Westby-Nunn, LL.B., Barrister-at-Law.

"Discussion of N.D.C." Qualified Members' Meeting.

"Important Sections of the Companies Act," by Mr. E. Westby-Nunn, LL.B., Barrister-at-Law.

"Bankruptcy Principles and Practice," by Mr. E. Westby-Nunn, LL.B., Barrister-at-Law.

"Discussion of N.D.C." Qualified Members' Meeting.

"The Construction of Speeches," by Mr. A. Duxbury.

"Income Tax, Schedule D," by Mr. J. Wilson, H.M. Inspector of Taxes.

Informal Dinner.

"Income Tax, Schedule D," by Mr. J. Wilson, H.M. Inspector of Taxes.

"Accounts of Holding Companies," by Mr. C. A. Sales, LL.B., F.S.A.A.

"N.D.C.," by Mr. J. E. Spoors, A.S.A.A., A.C.I.S.

"Statistics," by Mr. E. Allen, M.A.

At Middlesbrough :

"Executorship Accounts," by Mr. G. Lambert, A.S.A.A.

"Mercantile Law Problems," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.

"Cost Accounts," by Mr. J. Arthur Taylor, A.S.A.A.

"Important Sections of the Companies Act," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.

"Bankruptcy Principles and Practice," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.

"The Construction of Speeches," by Mr. A. Duxbury.

"Sur-Tax in Relation to the Undistributed Profits of Limited Companies," by Mr. T. Fairbairn Short, A.C.A.

"Auditing," by Mr. J. Arthur Taylor, A.S.A.A.

"Sale of Goods," by Mr. J. Eric Thomas, Solicitor.

"Contracts," by Mr. J. Eric Thomas, Solicitor.

General meeting of members.

There was a distinct improvement in the attendance at the lectures at both Newcastle and Middlesbrough. The Committee trust this indicates that the students are realising that the lectures provided can be extremely useful in assisting their studies and training them for their future careers. Two meetings of qualified members were held, when the provisions of N.D.C. were discussed in detail.

EXAMINATION RESULTS.

Congratulations are extended to the students who were successful in the Society's examinations. Twelve passed the Final, and seventeen the Intermediate.

LIBRARY.

During the year the Library has been brought up-to-date by the purchase of a large number of books. It now contains a comprehensive collection of standard works on professional subjects. A printed catalogue has been prepared and circulated to members.

COMMITTEE.

Mr. G. A. Pickering resigned during the year on taking up an appointment out of the district. The following retire by rotation, but are eligible for re-election: Mr. F. W. Smith, Mr. H. S. Parkin, Mr. G. Blakelock, Mr. A. J. Ingram, and Mr. C. L. Hamer.

Mr. Robert Hay, Mr. Thomas Jewitt, and Mr. J. F. Chapman have been nominated for election to the Committee.

DISTRICT SOCIETIES.

The President and Hon. Secretary have attended official functions of various Northern District Societies during the year. The Society was represented at the Conference of District Societies held at Incorporated Accountants' Hall, London, in May, 1937.

NORTH LANCASHIRE.

Annual Report.

The Committee have pleasure in presenting a report on the work of the Society for the year ended March 31st, 1938.

MEMBERSHIP.			
		1937	1938
Fellows	..	31	39
Associates	..	108	107
Students	..	89	93
		228	239

LECTURES.

"Amalgamations and Reconstructions," by Mr. W. G. Wallwork, A.C.A.

"The National Defence Contribution," by Mr. R. E. Bird, B.Sc. (Econ.), of *The Economist*.

"Bankruptcy Law and Deeds of Arrangement," by Mr. E. Westby-Nunn, B.A., LL.B.

"Estate Duty," by Mr. C. A. Sales, LL.B., F.S.A.A.

"Partnership Accounts," by Mr. W. W. Bigg, F.C.A., F.S.A.A.

"Test Checks," by Mr. Bertram Nelson, F.S.A.A.

"Back Duty Cases," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

The average attendance at the lectures shows some improvement on the previous year, but the Committee feel that many more students could and should avail themselves of the facilities offered, especially as the lectures are a great help to students studying for examinations. The two lectures held at Blackpool were very well attended, and arrangements are being made to have one in Blackpool and one in Blackburn during the Session 1938-39.

EXAMINATIONS.

Congratulations are extended to the students who were successful at the Parent Society's examinations in May and November, 1937. Ten passed the Final examination, and ten the Intermediate.

LIBRARY.

Despite the facilities afforded by the existence of an up-to-date collection of works of a technical character, acquired at considerable expense, little use has been

made of the advantages offered, as very few requests have been made for the transmission of books by post.

PARENT SOCIETY.

The Committee again record their thanks to the Council and Officers of the Parent Society for their continued interest and support. Mr. J. Wareing represented the Society at the Annual Meeting of Representatives of District Societies held in London in May, 1937.

COMMITTEE.

The retiring members of the Committee are Mr. W. Ashworth, Mr. H. Cumming and Mr. H. Ryden, who are eligible for re-election.

AUDITOR.

The retiring Auditor, Mr. A. S. Oldman, is also eligible for re-appointment. No other nomination has been received at the date of this report.

ANNUAL DINNER.

In the absence, through indisposition, of the President of the District Society, the Chair at the Annual Dinner held on March 4th was occupied by the Vice-President, Mr. Walter H. Marsden. The presence of the President of the Parent Society, Mr. Walter Holman, afforded much satisfaction to the members.

CONCLUSION.

During the year an important communication was received from the Parent Society, dealing with research. It is in matters of this description that the usefulness of the District Society can best be demonstrated, and the Parent Society is justified in expecting every assistance from those in whose interests such action is taken.

The Committee cannot close their report without once again soliciting an increased interest in the work of the Society as a whole, in the absence of which the efforts put forward to advance the prestige of the profession, and this organisation in particular, will to some extent fail in their purpose.

Scottish Notes.

FROM OUR CORRESPONDENT.

Institute of Municipal Treasurers and Accountants.

The Scottish Branch is honoured by the appointment of Mr. John D. Imrie, J.P., M.A., B.Com., F.S.A.A., City Chamberlain, Edinburgh, as President of the Institute of Municipal Treasurers and Accountants. Mr. Imrie took Honours in the Society's Final examination held in November, 1919.

It is interesting to note that this is the second occasion on which the President of the Institute of Municipal Treasurers and Accountants has been selected from the membership of the Scottish Branch, as Mr. Donald M. Muir, F.S.A.A., City Chamberlain, Dunfermline, was President a few years ago.

Scottish Education Department.

The 66th annual report by the Accountant to the Department, Mr. J. A. Thomson, has just been published. This report is still published in terms of sect. 51 of the first Education Act, which was passed in 1872, and for which Mr. George Young, Lord Advocate, afterwards Lord Young, was responsible. The accounts relate to the year 1936-37.

The total revenue expenditure amounted to £13,398,087, of which £8,361,004, or 62.40 per cent. was for salaries of and retiring allowances to teachers, while £2,148,518, or 16.4 per cent. was for maintenance of schools and continuation classes, both of which items show slight increases over the expenditure for 1935-36. The administration expenses were £407,036 or 3.04 per cent. of the expenditure, which was a slight decrease over the previous year.

In last year's report the accounts for 1935-36 of four Education Authorities were entered provisionally in that Report. The accounts of two of the Authorities were completed without any adjustment in the figures being found necessary. In two other counties the figures are still provisional.

One of these Authorities referred to is the County of Dumfries, where the Education Accounts are now in arrears for the four years 1933-34, 1934-35, 1935-36 and 1936-37. It is reported that an advance copy of the accounts for 1933-34 was subjected to a preliminary examination, but until the matter in dispute between the County Auditor and the Council is settled, no further progress can be made. The nature of the dispute is not stated.

In connection with interim reports by County Auditors, it may be noted that one of these referred to commissions received on insurance premiums paid by the Authority, but not brought to account in the accounts of the Authority. The determination by the Secretary of State or the Department was that the sums in question should have been brought to account in the accounts.

Notes on Legal Cases.

EXECUTORSHIP LAW AND TRUSTS.

Armed Angullia Bin Hadjee Mohamed Salleh
Angullia v. Estate and Trust Agencies.

Uncompleted Contracts of Intestate.

It was held by the Privy Council that *prima facie* it is the duty of a legal personal representative to perform all uncompleted contracts of his testator or intestate, as the case may be, which can be enforced against him whether by way of specific performance or otherwise. The breaking of an enforceable contract is an unlawful act, which it is not the duty of an executor or administrator to commit. In the case of an enforceable onerous contract he ought not to neglect an opportunity of coming to terms with the other contracting party which may benefit the estate.

(P.C.; (1938) 54 T.L.R., 831.)

INSOLVENCY.

In Re a Debtor (No. 21 of 1937).

Judgment Debt Against Married Woman.

The creditor obtained against the debtor (a married woman) judgment for £73 5s. for goods supplied, but nothing was paid under the judgment. The creditor then obtained the issue of a bankruptcy notice, but the debtor failed to comply with it. Thereupon the creditor presented a bankruptcy petition against the debtor which the Registrar of the County Court dismissed on the ground that part of the debt was incurred before the Law Reform (Married Women and Tortfeasors) Act, 1935, became law.

It was held by the Court of Appeal, reversing the decision of the Divisional Court (see *Incorporated Accountants' Journal*, August, 1938, p. 420), that the issuing of the bankruptcy notice was a step to enforce in bankruptcy the judgment on which it was based, and that, as the bankruptcy notice was issued in respect of a judgment for a debt which included a sum due from the debtor to the creditor before the Act of 1935 became law, it was invalid. It followed that no act of bankruptcy had been committed by the debtor to entitle the creditor to a receiving order.

(C.A.; (1938) 54 T.L.R., 897.)

TAXATION.

United Steel Companies Limited v. Cullington.

Wear and Tear Allowance.

Constituent companies were entitled to carry forward wear and tear allowances under R. 6(3) of the rules applicable to Cases I and II of Schedule D to the Income Tax Act, 1918, and losses under Sect. 33 of the Finance

Act, 1926, and those companies were amalgamated into one company.

It was held that the amalgamated company was entitled to carry forward and have the benefit of the accumulated allowances for wear and tear, but not to carry forward the losses of the constituent companies.

(K.B.; (1938) 54 T.L.R., 785.)

Allen & Murray v. Trehearne.

Service Agreement.

The service agreement of a managing director of a company provided that the company, in addition to salary and commission, should make a terminal payment of £10,000 on the final determination of his service with the company from any cause whatsoever other than wilful default in the performance of his duties, and that he should accept that sum in lieu of expectation of pension. The managing director died while in the service of the company during the continuance of the agreement, and the company duly paid the sum of £10,000 to his executors.

It was held by the Court of Appeal, affirming the decision of Lawrence (J.) (see *Incorporated Accountants' Journal*, June, 1937, p. 356), that the executors were properly assessed to income tax under Schedule E in respect of the £10,000.

(C.A.; (1938) 54 T.L.R., 826.)

Lever Brothers Limited v. Inland Revenue Commissioners.

Stamp Duty.

The increase of its capital by a company with a view to the acquisition of not less than 90 per cent. of the issued share capital of another company, whereby exemption from stamp duty charged under the heading "Conveyance or Transfer on Sale" in the First Schedule to the Stamp Act, 1891, is granted, means that not less than 90 per cent. must be acquired by the increase of capital.

The Court of Appeal, affirming the decision of Lawrence (J.) (see *Incorporated Accountants' Journal*, February, 1938, p. 192) held that where a company has already acquired for cash 42 per cent. of the issued share capital of another company and later under a scheme of amalgamation issues unissued shares of its own for the acquisition of shares sufficient to bring the total shares acquired up to 90 per cent. of the issued share capital of the other company, there has not been an increase of capital by the company under the scheme of amalgamation with a view to the acquisition of not less than 90 per cent. of the issued share capital of the other company, and exemption from stamp duty on the transfers cannot be claimed under sect. 55 of the Finance Act, 1927.

(C.A.; (1938) 54 T.L.R., 892.)

Dawson v. Counsell.

Partnership Income Tax.

A and B carried on in partnership the business of breeding from a brood mare and selling the foals when possible as yearlings. The mare and its progeny were kept on a farm belonging to A, who himself kept a number of other brood mares there.

It was held that A was exempt from taxation under Schedule D in respect of his share of the profits of the business by reason of his assessment under Schedule B in respect of the profits derived from his occupation of the farm. A and B were not occupiers of the farm in respect of their brood mare and foals, for they were not, as such, persons having the use of the farm so as to be deemed to be occupiers of it under No. VII, r. 2 of the rules under Schedule A, which were made applicable to Schedule B by r. 4 of the rules applicable to that Schedule. It followed that an assessment to tax under Schedule D was properly made in respect of B's share of the profits, but that the partners were jointly assessable in respect of that tax under r. 10 of the rules applicable to Cases I and II of Schedule D.

(K.B.; (1938) 54 T.L.R., 874.)

SEP 12 1938

The Incorporated Accountants' Journal.

Vol. XLIX. No. 12]

[September, 1938

The Society of Incorporated Accountants & Auditors.

A.D. 1885.

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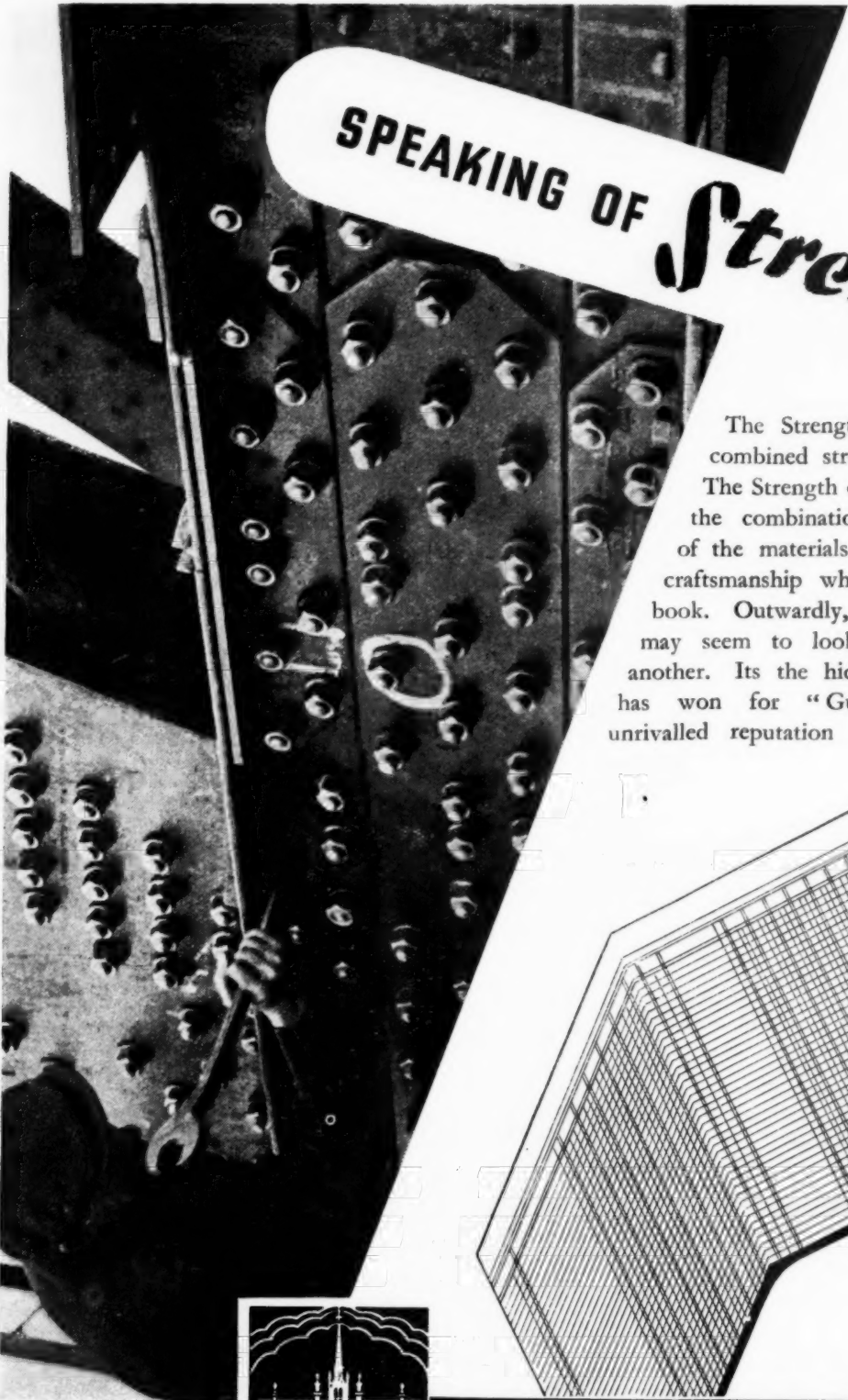
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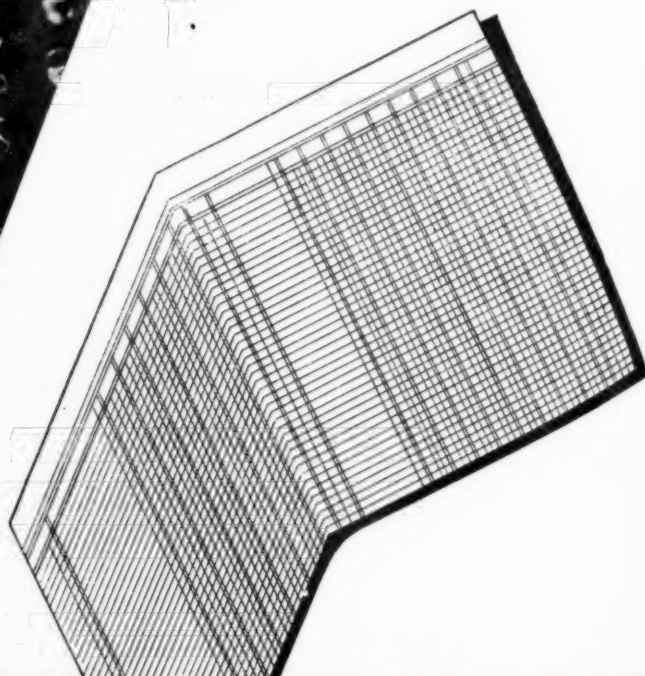
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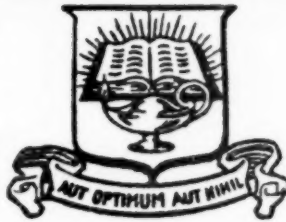
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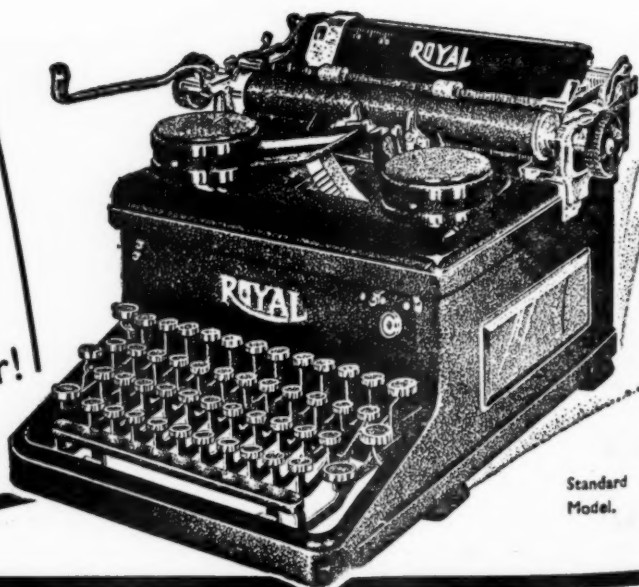
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